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FINANCING OF SMALL BUSINESS EXPORTS BY THE EXPORT-IMPORT BANK

HEARING

BEFORE THE

SUBCOMMITTEE ON
EXPORT PROMOTION AND MARKET DEVELOPMENT

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

FINANCING OF SMALL BUSINESS EXPORTS BY THE EXPORT-IMPORT BANK

MAY 10, 1984

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CONTENTS

Page

Statement of Senators:
- Boschwitz, Hon. Rudy, a U.S. Senator from the State of Minnesota, and chairman, Subcommittee on Export Promotion and Market Development of the Committee on Small Business 1
- Kasten, Hon. Bob, a U.S. Senator from the State of Wisconsin 25
- Mattingly, Hon. Mack, a U.S. Senator from the State of Georgia 3
- Sasser, Hon. James R., a U.S. Senator from the State of Tennessee 2

Statement of Representative:
- Ireland, Hon. Andy, a U.S. Representative from the State of Florida 6

Statement of:
- DeVore, David, vice president, international, Shaw Mudge & Co 4
- Draper, Hon. William H., III, President and Chairman, Export-Import Bank of the United States, Washington, DC 7
- Elmer, Ivan C., director, office of small business programs, U.S. Chamber of Commerce 200
- Fassino, James C., assistant vice president, Commercial National Bank of Peoria, Peoria, IL, accompanied by Robert T. Stevenson, Jr., executive vice president, Commercial National Bank of Peoria 194
- Gentilomo, Carlo B., president, Contact Systems Corp., New York, NY, on behalf of the Chamber of Commerce of the United States, accompanied by Jeanne L. Morin, associate manager-legislation, small business center, U.S. Chamber of Commerce; and Ivan C. Elmer, director, office of small business programs, U.S. Chamber of Commerce 196
- Harrison, Gordon, executive director, World Technology Center, Atlanta, GA, and Tallahassee, FL 96
- Lam, Duc, executive director, Minnesota Export Finance Authority, St. Paul, MN 34
- Maahs, Jerry D., president, Alto-Shaam, Inc., Menomonee Falls, WI 202
- Morin, Jeanne L., associate manager-legislation, small business center, U.S. Chamber of Commerce 197
- Narayana, D. P. (Darin), senior vice president, Norwest Corp., Minneapolis, MN 187

APPENDIX

- Statement of Andrew Midler, analyst, Department of Commerce, State of Michigan 208
- Statement of Hugh Wright, president, Pineland International Corp., Decatur, GA 216

HEARING DATE

May 10, 1984:
- Morning session 1

FINANCING OF SMALL BUSINESS EXPORTS BY THE EXPORT-IMPORT BANK

THURSDAY, MAY 10, 1984

U.S. SENATE,
SUBCOMMITTEE ON EXPORT PROMOTION
AND MARKET DEVELOPMENT,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:38 a.m., in room SR 428A, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz and Kasten.

Also present: Representative Ireland.

Staff present: Stewart Hudson, professional staff member; Tim Bergan, legislative assistant to Senator Boschwitz; and Dorothy C. Olson, hearing clerk.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM THE STATE OF MINNESOTA, AND CHAIRMAN, SUBCOMMITTEE ON EXPORT PROMOTION AND MARKET DEVELOPMENT OF THE COMMITTEE ON SMALL BUSINESS

Senator BOSCHWITZ. Good morning, ladies and gentlemen. We are very pleased to welcome Congressman Ireland here today, in his new role as a Republican.

Are you now a Republican?

Representative IRELAND. About July 2 the metamorphosis takes place.

Senator BOSCHWITZ. Are there any physical changes that come about?

Representative IRELAND. I am waiting to see. There are now elephants in the cotton fields, I guess.

Senator BOSCHWITZ. I got gray. So, be careful.

I am pleased to hold this hearing to review the progress that the Export-Import Bank has made in financing small business exports.

This is an appropriate time to review the progress because it has been nearly 6 months since the law was signed that sets aside minimum percentages—6 percent in 1984; 8 percent and 10 percent in the two succeeding years—of Exim's total authority to finance small business exports. It is also an appropriate time because this week is Small Business Week, a time to recognize the creative and substantial contributions that small business makes to the country.

I look forward to receiving testimony from Congressman Andy Ireland, who has been the leading advocate in the House for in-

creasing small business exports and in securing Exim financing for small business.

I am particularly interested in learning from Chairman Draper the efforts that Exim is making to implement the small business amendments that Congressman Ireland and I worked so hard to bring about. Exim has scheduled a large number of small business seminars around the country to inform small businesses and financial institutions of the financing programs that are available. These seminars should be an important step toward increasing small business exports, and I look forward to knowing the response that Exim has received to the seminars.

But I believe that the most important element of any effort to increase small business exports is the actual financing mechanism that Exim uses to finance small business exports. To accomplish this effectively, it is necessary to involve local banks and State agencies to the maximum extent possible. In addition, the application process must be simple and timely to respond to the needs of the small business community.

In this regard, it should be noted that Exim is developing a pilot program to implement the small business setaside. I look forward to the discussion of the small business programs that will be used in the pilot program.

I am pleased that Minnesota—along with Wisconsin, Illinois, and Michigan—have been selected for this pilot program. Minnesota has been a leader in promoting small business exports and can contribute substantially to the success of the small business setaside. Indeed, the State of Minnesota has established the Minnesota Export Finance Authority which should be an integral part of the pilot program. The testimony from the State, bankers, small business and private sector organizations will provide valuable insight into how the pilot program can be expected to work or how it should be modified to achieve the goals of small business setasides through the Eximbank.

I note with some regret that one of our witnesses, a small exporter from Connecticut, Dave DeVore, could not be here today due to illness. I ask that his statement be put in the record, and I would recommend, for the consideration of all us involved in this issue, a resolution, discussed by the Small Business Advisory Council, that encourages certain changes in the administration of the Eximbank small business set-aside.

I also ask that statements by Senators Sasser and Mattingly be put in the record, and that the record remain open until tomorrow for statements by other Senators.

[Material follows:]

STATEMENT OF HON. JAMES R. SASSER, A U.S. SENATOR FROM THE STATE OF TENNESSEE

Mr. Chairman, I commend you for holding these oversight hearings which follow up our effort to establish a program within the Export-Import Bank to generate greater exporting activity in the small business community. As an original cosponsor of the small business amendment to what became Public Law 98-181, I share your continuing interest in this area.

A I reviewed Mr. Draper's statement for today's hearings, I was taken with the amount of activity which Exim has undertaken to meet the mandate we established last year in P.L. 98-181. However, I want to be sure that Exim is making as much

progress as possible given the statutory authority available to it. In short, while I am pleased to see that Mr. Draper and his staff have begun to carry out the will of Congress on this matter, I believe there is more to be done.

I will be interested in hearing the specific steps the Ex-Im Bank will take in its efforts to promote small business exports. In particular, I would like some idea of when the bank is planning to move beyond the present pilot program operating in four states. In addition, what type of program is being contemplated as a follow-up to the present pilot programs?

I also have some questions about the most effective method of recruiting new small business exporters. Mr. Draper's statement indicates that the series of seminars and conferences scheduled throughout this year are proving successful in bringing in small firms which have previously avoided exporting. While this conflicts with a G.A.O. study done last year, I am quite pleased with this bit of news, especially in light of the fact that such a conference is scheduled for Nashville, Tennessee on the 17th of this month.

I am convinced that there are steps beyond these conferences which Ex-Im ought to begin exploring in its efforts to bring more small businesses into the exporting arena. Realistically, we are asking a lot of a small firm to go out on its own to build up an exporting market. Given the trials and travails facing most of our smaller business owners, exporting is indeed a tall order. However, I would wager that most of these same entrepreneurs would jump at a chance to participate in an exporting cooperative designed specifically to aid small firms in their state or region. Mr. Chairman, I know you have expressed thoughts along these lines with your suggestions for a banking consortium to assist small firms interested in exporting.

It may be that the working capital guarantee program referred to in Mr. Draper's statement can be expanded to provide the basis for this type of consortium or exporting cooperative. I think it is safe to say that until we see Ex-Im take the lead in establishing this type of program which can provide both financial and managerial assistance to small firms interested in exporting, we will not see a significant increase in export activity by our Nation's small businesses.

I look forward to hearing comments today on how best we can move ahead and create more export opportunities for small business in Tennessee and the Nation.

STATEMENT OF HON. MACK MATTINGLY, U.S. SENATOR FROM THE STATE OF GEORGIA

I commend the Chairman of this Subcommittee, Senator Boschwitz, for taking the initiative to hold these hearings. It gives representatives from the small business community the opportunity to recommend ways that the U.S. Export-Import Bank (Eximbank) can effectively implement specific programs designed for small business. It also provides an opportunity for officials from Eximbank to explain their programs and plans to administer these programs.

I have a special interest in small business export promotion. I worked closely with Senator Boschwitz last year in developing legislation requiring the Eximbank to set-aside a portion of the Bank's total resources for small business.

I continue to hold strong beliefs in the potential small business has to expand the export base of our country. The U.S. Department of Commerce estimates that at least 20,000 businesses in our country could export, but do not. In fact, only one percent of American manufacturers account for over 80 percent of our exports.

American small business exporters want to export, they want to compete and are able to compete on the basis of those things at which they excel—quality, service and price. However, they cannot compete against the officially subsidized export financing offered to their foreign competitors. The small business set-aside that Congress mandated last year insures small business better access to Eximbank's resources at competitive terms. The Eximbank small business set-aside is an extremely vital step in allocating limited federal resources to a sector with great potential.

It is extremely important, therefore, that the Eximbank be viewed not as a Bank, per se, but as an instrument of U.S. trade policy and job creation. The increase in exports caused by small business participation would help us in our attempts to reduce trade deficits.

We all know the facts. A surge of imports pushed the U.S. merchandise trade deficit in the first quarter of 1984 to a record $25.8 billion from a fourth-quarter level of $19.4 billion in 1983. I have seen some estimates putting the merchandise trade deficit for the entire year at $110 billion to $115 billion. It is essential that resources allocated for export promotion be fully utilized. Without a doubt, increasing US exports—especially in the small business community—will help to improve our trade deficit and unemployment picture.

It is for this reason that I am interested in having the Congress and the American small business community learn more about how the Eximbank plans to implement the set-aside program which Congress mandated. I am aware of the seminars Eximbank has been conducting for small business communities throughout the country. In fact, I am closely involved in one scheduled in Atlanta on May 29, 1984. I am participating because I believe it is necessary to identify potential small business exporters and to make them aware of the Bank and its resources reserved for small business.

The success of this set-aside program is dependent on two major factors. One, Eximbank must be sincerely willing to soften its resistance to relinquish some of its lending, loan guarantee and insurance guarantee authority to regional and local banks and other trade-related institutions such as state development agencies. Secondly, the regional land local banking community must be willing to disregard old biases against Eximbank and become more active and enthusiastic about small business export financing. The participation of the regional and local bankers is an essential part of the export finance formula. Yet, I recognize that the banks can only do do much. They also need the cooperation of Eximbank. In other words, the banks—Eximbank and the local and regional banks—must be flexible and enthusiastic about helping small business exporters. And the small business community must become more aware of what it takes to successfully conclude an export sale.

I support the efforts of Eximbank to prudently regionalize or localize export promotion programs. In this regard, I encourage Eximbank to take a hard look at Georgia as a state that is becoming more active in exporting. The city of Atlanta continues to grow in size and stature among those involved in international trade.

Again, I thank the Chairman for his holding this hearing and for giving me the opportunity to make this statement.

STATEMENT OF DAVID DEVORE, VICE PRESIDENT, INTERNATIONAL, SHAW MUDGE & CO.

Mr. Chairman and Members of the Sub-Committee, My name is David DeVore. I am international Vice President for a small Connecticut manufacturer, Shaw Mudge & Company.

I thank you for this opportunity to appear here to speak on one of my favorite topics and most important concerns, export financing.

Anyone who has spent much time selling U.S. goods and services abroad knows that the American exporter can almost never match his European and Japanese competitiors in payment terms. This has been true for as long as I can remember, 20 years plus.

Until four years ago, I viewed our country's backwardness in export financing as nothing more than a commercial hurdle, like our higher costs and the "overvalued dollar" (which is nothing new, by the way. The dollars has been "overvalued" for 14 out of the last 20 years).

We're pricey and a bit difficult about credit. Admittedly this is not easy for our unsubsidized commodities producers. But most of us have quality and/or service features in our offerings which compensate. Or Anyway this was my attitude until four years ago.

What happened four years ago to alter my view? Five years ago, I entered the world of small business, after 15 years with large multinationals. It took me a bit less than one year to realize that if my company were to continue on the course I had set for it, it would inevitably run into severe cash flow problems. That is, unless I could anticipate the drain by lining up a suitable export finance package. I started looking then. I am still looking. Why should a small company be financially threatened by an export sales program? The answers are two; one is obvious, the other is not so obvious.

The obvious is that if the export program succeeds at all it is likely to succceed too well and too fast—meaning that the company's resources will be strained to fill its commitments.

The not-so-obvious is that exports put the company into an entirely different financial time frame. Simply stated, if you normally sell on 30 day terms domestically you would expect to receive payment in 30-45 days. However, if you sell to someone in Singapore at 30 days sight, you should not expect to be paid in less than 90 days. Transit time alone is six to eight weeks. Small business exporters need export financing to fill the additional demand for operating capital.

Both Ex-Im Bank and SBA have programs which look very good on the books. The problem is, and always has been, implementation.

The idea that the commercial banks should administer these programs makes good sense. The problem now is that the bankers of smaller business, the regionals and locals, don't seem to want anything to do with it.

This may very well be due to lack of understanding on the part of these bankers. If so, Ex-Im Bank should concentrate on selling its small business programs to the right bankers.

There is some indication that our bankers are resisting involvement. Some apparently feel that Ex-Im Bank and SBA have made the application and administrative requirements far too complex, too burdensome to be worth their while. I have asked several banks to investigate Ex-Im Bank's New to Export and SBA's Export Revolving Credit programs. Mostly, they don't call back. However, one bank officer did respond by personally brining the applications for both. She made a rather harsh comment about their length and complexity, and added that her bank would not be interested in dealing with either one. After looking them over, I could understand that.

Mr. Draper has lamented the fact that Ex-Im Bank simply, isn't receiving enough applications from small businesses. After having looked at one of these applications I wouldn't attempt to fill it out without expert assistance. If our banks won't deal with them, who will then?

The key then seems to be to get local and regional bankers involved in a way which is reasonable to them. If they are to market and administer these programs in a routine and efficient manner, our bankers must approve of them as well as understand them.

The Small Business Advisory Council recently made four recommendations to Ex-Im Bank. Three of these were concerned with expanding the role of the "on-the-scene" bank in the set-aside programs. For those who haven't seen it, I've attached a copy.

These "on-the-scene" banks, two of which are with us today, represent the best means of getting this impacted financing from where it is to where it should be.

Accordingly, in order to move along effective implementation, promptly, of the new mandate, we are in full agreement with the attached resolution of concerned grass-roots small business exporters.

Whereas, a Congressional study determined that one of the largest obstacles to small business exports was a lack of adequate financing, and;

Whereas, a source of governmental export financing, the EX-IM bank, already exists, and;

Whereas, hearings held by the Senate Small Business Committee clearly demonstrated that the EX-IM bank was not serving as an adequate source of capital for small businesses wanting to export, and;

Whereas, Congress then enacted legislation requiring that a specific portion of EX-IM bank funds be set aside for small businesses, and;

Whereas, it appears in the small business community that the current practices of the EX-IM bank discourage small businesses from seeking access to this new set aside;

Therefore, be it resolved that the Small Business Advisory Council makes the following recommendations to the EX-IM bank to encourage the bank to increase the availability of financing that is so crucial to small businesses wanting to export:

—The EX-IM bank should place more emphasis on the state or local banks that are crucial to the success of the EX-IM bank small business set aside.

—In order to emphasize the importance of these "on-the-scene" banks, the EX-IM bank should allow them to have their own discretionary lending authority, up to a certain amount, and the EX-IM bank should reinforce this authority with 90% EX-IM commercial risk coverage to supplement existing state risk coverage programs.

—EX-IM bank should consider the viability of providing the above services through the existing Small Business Administration network which already has a strong interest in small businesses as a whole.

—At the end of a given year, the EX-IM bank Advisory Council should review all the local participating banks, evaluate the quality of their loans, their performance, the size of the companies to which they made these loans, and the extent to which the banks loaned EX-IM bank funds over a twelve-month period.

—Finally, the EX-IM bank should establish a Foreign Buyer Financing Program to finance transactions originated by small businesses above $100,000, through their qualified local private financing institutions.

Senator BOSCHWITZ. Congressman Ireland, we appreciate your coming over to the senior body this morning. We hasten to add, that is the way it should be addressed. We welcome you and look forward to receiving your testimony.

STATEMENT OF HON. ANDY IRELAND, A U.S. REPRESENTATIVE FROM THE STATE OF FLORIDA

Representative IRELAND. Thank you, Mr. Chairman. It is a great pleasure for me to be over here at "the other" body this morning to discuss the potential of small business exports and the role that the Export-Import Bank can assume in this area.

Before I make a few specific comments about the Bank and its efforts, I would like to take this opportunity to commend you, Senator, for the work that you did in bringing this issue before the Senate last year and seeing it through to the point where we have a law on the books for a set-aside to move the small business sector forward.

This year, we experience the worst trade deficit in the history of our Nation. Some will tell you that this is not important. Some will say that our domestic markets are more than large enough to compensate for this sudden deterioration and that in time the dollar will weaken somewhat overseas. With this, I do not agree. The trade deficit will be in the neighborhood of $120 billion, if circumstances are left alone. This is a serious situation, and it is serious because it is costing hundreds of thousands of jobs across the United States, a condition that we should not tolerate.

Of the businesses of this Nation that export or have the potential to export, small business offers the most promise for America to realize its economic potential. Yet, it is in this very sector in which the export-promotion efforts of the Federal Government have been the least successful and the least active. We have, for instance, in the area of EDA grants, several hundreds of millions of dollars but only a tiny percentage of it addresses the need to generate jobs through export. Indeed, in one area of technology and training, there is only $1 million set aside. I have certain knowledge, for instance, in the Florida-Georgia area, of a grant now before the Commerce Department for some $400,000. It is called the World Technology Center and obviously would use up a large chunk of that million dollars. That project, and others of that scope, is among the things that are needed. It can only point out the limited attention that exporters are receiving in that area.

The Export-Import Bank in particular can play an important role in the development of small business exports. It is for that reason that I originally introduced the legislation in the House, as you mentioned. Now that it is law, I look forward, as do you, to seeing that the Bank gets the job done.

To be quite frank, when the officials of the Bank first discussed their small business pilot plan with me some months ago, I had quite a few problems with it. Since that time, apparently some changes have been made, and I will be the first one to say, "Let's give it a chance to work. Let's work with it."

I am mainly here today to listen to the explanation of the program and to raise some questions for which I think we need an-

swers. Among these are, what is the Bank doing to encourage more of the Nation's smaller businesses to deal directly with them and to use their programs? What kind of delegation of authority is the Bank contemplating to State and local governments and/or State and local financial institutions, if any? Are the pilot programs for use by anyone in the country who qualifies, or are they just for those in certain States? How are the small business seminars being conducted? Are a lot of people attending those seminars? What do they think of the Bank's efforts? How is the Bank doing in committing funds to meet the set-aside, and is small business being given access to all of the Bank's programs? Finally, what are the Bank's long-term commitments to the small business community.

Mr. Chairman, I think you would agree, we need answers to these and other questions. I look forward to the dialog to follow, and I look forward to being here as long as possible before we get into the Foreign Assistance Act, over there in "the other" body.

Senator BOSCHWITZ. I hope, Congressman, that you will come up and join me. Bring your sign along. Join me both in the conduct of the hearing and in the questioning of the witnesses. You are very welcome here.

Here, you know, the Republicans sit on this side. Even though it is not yet July 2, come right ahead.

The first panel that we have with us this morning is Mr. William S. Draper, president and chairman of the Export-Import Bank.

STATEMENT OF HON. WILLIAM H. DRAPER III, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES, WASHINGTON, DC

Mr. DRAPER. Mr. Chairman, I am pleased to be here today to testify on the status of the Eximbank small business marketing activities. During the latter part of 1983, Eximbank adopted a marketing program to more effectively service small- and medium-sized companies. This program went beyond merely educating and communicating with the exporting community. Included was a plan to review and modify Eximbank's programs as necessary, improve responsiveness to exporters seeking assistance, and expand the distribution network for Eximbank's programs beyond traditional banks, large banks, and insurance brokers to those institutions serving small businesses; and finally to establish a network of trained agents in the field to assist small businesses obtain the necessary financing for their exports.

We realize these tasks would take some time to be fully implemented——

Senator BOSCHWITZ. Pardon me, Mr. Draper. Where are you on your statement so that I can follow it a little easier?

Mr. DRAPER. This is just an introduction. We will get right to it.

We realize these tasks will take some time to be fully implemented, particularly with the limited resources of Eximbank, so we set a goal of establishing this marketing program during fiscal year 1984. Today, I am pleased to report that we have made significant progress and feel confident that our marketing program will be fully established before the end of the fiscal year. I also would like to add that the progress we have made would not have been possi-

ble without the valuable input and close cooperation we have received from the Department of Commerce and State agencies. We also want to thank you, Mr. Chairman, for the prods that you have given to us to do more for small business, and to Congressman Ireland for his help in this program.

Our communications efforts have two goals. First, to improve our awareness and our understanding of the real needs and special concerns of small exporters and small firms with export potential. Second, to improve small companies' understanding of our programs so that they can use them to export successfully. To help us achieve this two-way communication goal, we have appointed three small-business representatives to the Bank's advisory committee. We are also conducting a series of regional export conferences for small businesses across the country. Sixteen of these meetings have already been held, and 21 more are scheduled before the end of September. Attendance at individual sessions has been as high as 160, and altogether we have had 1,430 people attend these conferences.

Preliminary tabulations of questionnaires filled in by conference participants indicate that 64 percent of the attendees responding represent firms with fewer than 100 employees, and 80 percent are from companies with with fewer than 500 employees. More than 46 percent of the companies have been exporting for less than 3 years or have not exported at all. Thirty-five percent were either previously unfamiliar with or unaware of Eximbank's programs. Fifty-five percent rated themselves as only "slightly familiar" with exports before attending the seminar. After attending the seminar, 90 percent gave the conference "satisfactory" or better rating. Thus, we concluded we had reached the appropriate audience with an appropriate presentation.

Our toll-free hotline service has been especially active this year, probably in view of these conferences. In the first half of 1984, 5,500 calls for assistance were receive on the special number, and in the month of February alone, we received 1,456 calls, the highest monthly total since the service was initiated 5 years ago.

We designed three programs specifically to meet the needs of small businesses, although all of our export support programs are available to and are being used by small exporters. Our newest program, the Working Capital Guarantee, enables small companies to obtain critical preexport financing from commercial sources. Our Small Business Credit Program enables small manufacturers to arrange commercial bank export loans for their medium-term sales, with interest rates fixed at the lowest levels permitted under internationally adopted OECD guidelines, and they do not have to show any evidence of international government interference. We make it easy for them to qualify for that program.

Our New-to-Export Insurance Policy, offered through the Foreign Credit Insurance Association, FCIA, provides an excellent entry mechanism into international sales. We are actively engaged in promoting the use of these programs, and we have assigned six Eximbank employees to work fulltime on a marketing task force. We have contracted with a professional firm—Needham, Porter & Novelli—to develop an effective communication and marketing effort. We have developed a new "umbrella" insurance policy, which will

be made available to State export financing agencies and others, beginning July 1. The policy will enable the insured parties to extend short-term insurance coverage to credit sales by threshold exporters.

We are now preparing to launch an intensive test-marketing campaign in a four-State area—Illinois, Michigan, Minnesota, and Wisconsin, to which you referred, Mr. Chairman. These States were selected because together they account for about one-fourth of the U.S. exports, and they are a well-diversified export base. They also have a highly developed banking system, and they have State government programs to encourage exports.

We will be trying a number of initiatives in the four-State area and monitoring their success in order to develop a national program. Our goal is to increase the use of Eximbank's programs by: First, increasing awareness and understanding of these programs; second, increasing the number of distributors for our programs—meaning the States, the banks, and any other agencies such as the Commerce Department and Small Business Administration who might act as distributors, and we are trying to increase the number of those distributors for our programs; third, establishing a system of field support for exporters wishing to use these programs; and, fourth, evaluating the effectiveness of the programs.

To increase awareness and understanding of our programs, we will be conducting an active marketing and promotional campaign, including the use of direct mail advertising and other appropriate resources. To increase the distributors for our program, we will be emphasizing two programs, the working capital guarantee and the FCIA umbrella insurance policy. In the four-State area only, any commercial bank wishing to participate may have delegated authority to commit Eximbank's guarantee cover for working capital loans of up to $300,000 per qualified exporter.

A system of field support for exporters in the four States has been set up. While we have conducted special briefing sessions for U.S. Commerce Department personnel working in offices throughout the country, we are providing extended training for nine Commerce trade-development specialists in this four-State area. Personnel in FCIA's Chicago office have been assigned to work fulltime on this special marketing campaign. In fact, those nine were in the bank yesterday and again today to get oriented, and then they will be in an onsite training program out in Chicago before they then go out to the exporters.

We have met several times with representatives of the four State governments, and we will continue to work closely with them as the campaign develops. Each of these organizations will be able to provide on-the-spot assistance to enable companies to understand and use our services. The results of this trial campaign will be carefully reviewed and evaluated throughout the test period. On completion, it will form the basis for a nationwide program, which should measurably increase the Bank's assistance to small- to medium-sized exporters.

Eximbank has already modified its internal recordkeeping to identify better its support for small business exporters. In the first half of this fiscal year, we authorized $625 million in assistance for exports by small businesses, or 20 percent of our total authoriza-

tions during the period. Under our FCIA insurance program, 65 percent of all the policies issued in that same 6 months were for small businesses. In addition, 77 percent of all quotes for new policies outstanding at the end of March were for small businesses.

Our four-point program of communication and education, program review and revision, marketing and distribution, and recordkeeping and analysis will enable us to provide you with an even better report on small exporters in the coming months. Small businesses form the very core of the American economic system. They represent the greatest potential source of new growth, of increased exports, and of new employment for our country. I am proud of the part that the Eximbank is playing to help them realize this potential. Thank you, Mr. Chairman. We will be happy to answer questions from any of the committee.

[The prepared statement of Mr. Draper follows:]

Statement by
William H. Draper III
President and Chairman
Export-Import Bank of the United States
Before the
Subcommittee on Export Promotion and Market Development
Senate Small Business Committee
May 10, 1984

Mr. Chairman and Members of the Subcommittee:

I am delighted to appear before this Subcommittee to discuss the Export-Import Bank's support for small business exporters. Since I am a former small businessman, I share the Committee's strong interest in this subject. Today. I am pleased to report on Eximbank's aggressive four-point program to help small firms to enter the export market and to succeed in it. Our efforts are focused on: (1) communication and education, (2) program review and revision, (3) marketing and distribution and (4) record-keeping and analysis.

I: Communication and Education

We are building an effective system of communication with small companies, trade associations, banks, state and federal government agencies and others directly involved with small companies. Our communications effort has two goals:

First, to improve our awareness and our understanding of the real needs and special concerns of small exporters and small firms with export potential.

Second, to improve small companies' understanding of our programs so that they can use them to export successfully.

James Yonge, a former small businessman from Florida, is the Bank's Director designated to oversee our small business activities. John Bohn, our new First Vice President and Vice Chairman, is responsible for overseeing our marketing efforts, and is thus very active in helping to reach small companies.

The Bank's 12-member Advisory Committee includes three small business representatives: Gordon O. F. Johnson, Chairman of the Board of Logetronics, Inc., of Springfield, Virginia, who is former Chairman of the Small Business Working Group of the U.S. Chamber of Commerce Export Policy Task Force; Ralph Chew, President and Chief Executive Officer of the A. E. Chew Company, Inc., of New York, and President of the National Association of Export Companies; and Wayne P. Moore, President and Chief Executive Officer of the Moore Special Tool Company, Inc., of Bridgeport, Connecticut. The first meeting of the Committee was held on March 29 and the next meeting will be on May 31.

Eximbank's Directors, officers and other staff members have been following a very active travel schedule to speak to a wide variety of groups. In the first half of fiscal year 1984, we made 233 trips covering 23 states.

This year, we are conducting a series of regional export conferences for small businesses across the country. Sixteen of these meetings have already been held, and 21 more are scheduled before the end of September Attendance at individual sessions has been as high as 160, and has totaled 1,430 so far. Preliminary tabulation of questionnaires filled in by conference participants indicates that 64 percent of the attendees responding represent firms with fewer than 100 employees and 80 percent are from companies with fewer than 500 employees. More than 46 percent of the companies

had been exporting for less than three years or have not yet exported. Thirty-five percent were either previously unfamiliar with or unaware of Eximbank's programs; 55 percent rated themselves as only slightly familiar before attending the seminar. After attending the seminar, 90 percent gave the conference a satisfactory or better rating. Thus, we conclude that we are reaching the appropriate audience with an appropriate presentation.

In the Bank's Washington offices each month, we schedule a one-day briefing session for groups of exporters and potential exporters, and two two-day briefing sessions for commercial bankers. Each session includes a full overview of the Bank's policies, operations and services and is offered at no charge. In addition, in March, we conducted our very popular annual conferences for exporters and commercial bankers. More than 400 people attended our two annual meetings, many of whom represented small businesses.

We have had special working meetings with panels of exporters, export trading companies, banks and insurance brokers, with associations, such as the National Association of State Development Agencies, and with trade and finance specialists from the Department of Commerce and the Small Business Administration.

Any small company that has a question relating to exporting can receive advice and assistance from Eximbank with a call to our toll-free hotline telephone number (800-424-5201). This advisory service has been especially active this year. In the first half of FY 1984, 5,500 calls for assistance were received on the special number. In the month of February alone, we received 1,456 calls--the highest monthly total since the service was initiated five years ago.

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Through these communications programs, and through Eximbank staff analysis, we have identified some of the strong points of our programs and found areas where further improvements were needed. Thus, the second point of our on-going program to assist small firms is program review and revision.

II. Program Review and Revision

Eximbank now defines small businesses according to the standards that should be familiar to all small companies: the standards set by the by the Small Business Administration. The SBA guidelines are based on either sales volume or number of employees for each industry, by SIC code.

Each of Eximbank's export support programs is available to and is being used by small exporters. Three programs are specially tailored to assist small businesses.

Our newest program, the Working Capital Guarantee, enables small companies to obtain critical pre-export financing from commercial sources. This is the first time Eximbank has provided pre-export financing support for U.S. companies. Since the program was introduced, through the end of March, we had approved 13 working capital guarantees. Now that the word is getting around that the program is available, more applications are coming in. Three more were approved in April and six are now pending. Guarantees approved so far are assisting companies exporting aviation parts, computers and office equipment, lumber, recreation and sports equipment, metal processing equipment and specialty metals. To facilitate use of the program, we are now improving and standardizing the application process. We also have reached an agreement in principle with the Small Business

Administration to coordinate our program more closely with their similar export revolving line of credit guarantee program.

Our Small Business Credit program enables small companies to arrange commercial bank export loans for their medium-term sales with interest rates fixed at the lowest levels permitted under internationally adopted guidelines of the Organization for Economic Cooperation and Development. Under the Small Business Credit program, unlike our other loan programs, we no not require evidence of subsidized foreign competition. This program is working well. Authorizations in the first six months of this year totaled $21.7 million, an increase of 57.2 percent over the level in the first six months of FY 1983.

Our "New-to-Export" insurance policy, offered through the Foreign Credit Insurance Association (FCIA), provides an excellent entry mechanism into international sales. It offers greater protection against the risks that foreign customers will not pay for their credit purchases, at reduced minimum premiums, compared to policies available to more established exporters. To make the New-to-Export policy even more attractive and useful, in March we adopted a "hold harmless" provision to encourage banks to accept assignment of the proceeds of these policies from small businesses as collateral for loans.

Another change which assists all FCIA insurance policyholders, new-to-export or otherwise, was the extension of cover for interest on claims to the date of payment, rather than to the date of default. This improvement will be especially beneficial to smaller companies, who feel the effects of non-payment more acutely than larger firms.

We have developed a new "Umbrella" insurance policy which will be made available to small and medium-sized banks, export trading companies, state export finance agencies, export financing cooperatives, small business investment companies, and other appropriate entities, beginning July 1. This new policy will enable the insured parties to extend short-term insurance coverage to credit sales by threshold exporters. These exporters thus will have coverage, without the administrative burdens of holding their own individual policies.

III. Marketing and Distribution

Eximbank is a small agency with a big mission. Our discussions and conferences have made us aware that a better effort was needed to market and distribute our services to small and medium-sized companies. We are tackling this problem in a number of ways.

We have assigned six Eximbank employees to work full-time on a marketing task force. In addition, all of the Bank's regular loan officers are advising and counseling small businesses daily in how to use our various programs. We have contracted with a professional firm, Needham Porter Novelli, to develop an effective communication and marketing effort. We are developing a new series of descriptive materials to help companies understand and use our services. We have brought in representatives from the Foreign Credit Insurance Association, the Department of Commerce, the Small Business Administration, and several state government agencies for in-depth training in Eximbank's programs so that they can effectively act as marketing agents and distributors in the field.

In this connection, we are stepping up our program of calling on commercial banks, and will help train commercial bank employees in the

operations of our programs in their own offices.

Four-State Campaign

We are now preparing to launch an intensive test-marketing campaign in a four-state area: Illinois, Michigan, Minnesota, and Wisconsin. These states were selected because together they account for about one-fourth of U.S. exports, they have a well-diversified exporter base, they have a highly developed banking system, and they have state government programs to encourage exports.

We will be trying a number of initiatives in the four-state area, and monitoring their success, in order to develop a national program. Our goal is to increase the use of Eximbank programs, by:

(1) increasing awareness and understanding of Eximbank programs,
(2) increasing the number of distributors for our programs,
(3) establishing a system of field support for exporters wishing to use these programs, and
(4) evaluating the effectiveness of the programs.

To increase awareness and understanding of our programs, we will be conducting an active marketing and promotional campaign, including use of direct mail advertising and other appropriate resources.

To increase the distributors for our programs, we will be emphasizing two programs, the working capital guarantee and the FCIA "umbrella" insurance policy.

In the four-state area only, any commercial bank wishing to participate may have delegated authority to commit Eximbank's 90 percent guarantee

cover for working capital loans of up to $300,000 per qualified exporter.

A system of field support for exporters in the four states has been set up. While we have conducted special briefing sessions for U.S. Commerce Department personnel working in offices throughout the country, we are providing extended training for nine Commerce trade development specialists in the four-state area. Personnel in FCIA's Chicago office have been assigned to work full-time on this special marketing campaign. We have met several times with representatives of the four state governments, and will continue to work closely with them as the campaign develops. These organizations will be able to provide on-the-spot assistance to enable companies to understand and use our services.

IV. Record-Keeping and Analysis

The results of this trial campaign will be carefully reviewed and evaluated throughout the test period. Upon completion, they will form the basis for a nationwide program which should measurably increase the Bank's assistance to small and medium-sized exporters.

Eximbank has already modified its internal record-keeping to identify better its support for small business exporters. In the first half of this fiscal year, we authorized $625 million in assistance for exports by small businesses, or 20 percent of our total authorizations during the period.

Under our FCIA insurance programs, 65 percent of all policies issued in the six months were for small businesses. In addition, 77 percent of all quotes for new policies outstanding at the end of March were for small businesses.

Our four-point program of communication and education, program review and revision, marketing and distribution, and record-keeping and analysis, will enable us to provide you with an even better report on small exporters in the coming months.

Small businesses form the very core of the American economic system. They represent the greatest potential source of new growth, of increased exports and of new employment for our country. I am proud of the part that Eximbank is playing to help them realize this potential.

Thank you Mr. Chairman. I will be happy to respond to any questions.

Senator BOSCHWITZ. Mr. Draper, in the first part of this fiscal year, you say, you authorized $625 million in assistance. What was the figure last year?

Mr. DRAPER. To be perfectly honest, we do not have the records from last year categorized the same way because we just began keeping records on each of these programs under the new SBA definition. But it was about 3 percent of total active authorizations at that time, and that is the major difference between the 3 percent that I reported to you last year and these numbers. It was not really appropriate to record all the business we had ever done and then tell you that we had done 3 percent of that for small business.

The trend has been to doing more for small business, and that is about all I can tell you. I cannot really give you that specific number.

Senator BOSCHWITZ. We use the terms "authorization" and "appropriation" up here. I am not quite sure if you use it similarly at the Bank or if you use the word "appropriation" at all. We have authorized, you say, 20 percent of our total authorizations during the period.

The basis of lending, how much of that percentage has not been reflected in——

Mr. DRAPER. OK. Direct loans authorized in the 6-month period by the Bank were $421 million. Of that, $41,030,000 was authorized for small businesses, and that was 9.7 percent.

Senator BOSCHWITZ. Those are loans made?

Mr. DRAPER. That is direct credit. You see, that $625 million is broken down into several categories: direct loans, medium-term credits, small business credits, financial guarantees, commercial bank guarantees, short-term insurance, and medium-term insurance. So when you ask about direct loans, there were $41 million out of $421 million that were authorized for small business.

Senator BOSCHWITZ. "Authorized" means made in your language? Committed?

Mr. DRAPER. "Authorized" means committed; right. We have preliminary commitments far exceeding these numbers, but they are not finally authorized until the U.S. offer is accepted. When the

U.S. bid is accepted, then we do a credit authorization, and even then there are details in the various legal documents that must be worked out, and so it goes on from that point. But generally that credit authorization is the last time the Board of Directors has to act on the case.

With regard to medium-term credit, we approved $10.9 million out of a total of $198 million for small businesses, which was 5.5 percent, but that low percentage is because we have a special small business credit program that totaled another $19 million for small businesses that would otherwise be done under the medium-term program. Under the small business credit program exporters do not have to show any foreign competition when they make the application, which our normal medium-term credit program does have as a criteria.

Then under "financial guarantees," it was about 9.8 percent for small business—$47 million out of $485 million total. Under the "bank guarantee" program, small business was about 7.7 percent—$19 million out of $255 million; and under "short-term insurance", it is $456 million out of $1.466 billion, or 31 percent for small business; "medium-term insurance" was about 26 percent for small business.

The total of amounts authorized for small business in all these programs was $625 million out of $2.963 billion of total authorizations, or 21.1 percent of the whole was for small business.

Senator BOSCHWITZ. That is a difficult-to-follow mix of figures, but it appears that small business has benefited more from the insurance sector. In other words, it is a collection of guarantees of direct loans and applications as well?

Mr. DRAPER. You are right. We have made major progress, I think.

Senator BOSCHWITZ. What would those figures have indicated last year?

Mr. DRAPER. As I say, we really cannot give you a comparison, because we did not start keeping the records by small business with the SIC numbers and so on until just this past year. So we are just starting into new territory.

Senator BOSCHWITZ. We have a couple of panels here that will go into that.

Representative IRELAND. Mr. Chairman?

Senator BOSCHWITZ. Go ahead, Congressman.

Representative IRELAND. If I may ask you to yield, I am like you: I would like to sort these figures out a little bit better, if I could. It seems to me that in order to know whether this 20 percent versus 3 percent is——

I want to start by saying I am happy that there is some progress being made. But I do not want to lead myself down the primrose path of how much progress has been made.

Mr. DRAPER. It has not been 3 percent to 20 percent, because the 3 percent was on a different basis.

Representative IRELAND. I understand that. The 20 percent, however, is meaningful if we analyze a couple of things. How much of the authorizations overall have been this year compared to last year? For the overall Bank, are they up or down? In other words, how big is the pot compared to last year? For the first 6 months of

last year, what were the overall authorizations compared to this year?

Mr. DRAPER. The direct loan program was——

Representative IRELAND. No; I mean just overall. The 20 percent of total authorizations in the first 6 months of the fiscal year 1984.

Mr. DRAPER. My Treasurer-comptroller, Mr. Ireland, says that it is approximately the same, although we do not have the exact numbers for the first 6 months of last year.

Representative IRELAND. You understand, I am not talking about the small business end of it. I am talking about how much business the Bank has done this year and last year? I had heard that it was down substantially.

Mr. DRAPER. It is well below the total limits that we have, but the first 6 months of last year was not far off these numbers. Last year, the recession had started at that point.

Senator BOSCHWITZ. Your total authorization is $10 billion or $14 billion for the year?

Mr. DRAPER. In the first 6 months of fiscal year 1983—through March 31, 1983—the total authorizations were $3.274 billion. For the first 6 months of this year, it totaled $2.963 billion. Those numbers are not quite comparable because——

Senator BOSCHWITZ. Your total authorization for the year is $14 billion?

Mr. DRAPER. Yes; $10 billion of guarantee and insurance authority and $3.8 billion of direct loan authority. That is correct.

Senator BOSCHWITZ. Thus far, you have used the total of $2.9 billion or roughly $3 billion of the total of $14 billion?

Mr. DRAPER. Right.

Senator BOSCHWITZ. How much did you use last year, at the end of the year? Was the second half more active than the first half?

Mr. DRAPER. We authorized $845 million of direct loans and $8.5 billion of the $9 billion ceiling in insurance and guarantees.

Senator BOSCHWITZ. You go ahead and I will get back to that.

Representative IRELAND. Let me run through the 1983 figures. The first 6 months was $3.2 billion overall and $2.9 billion in 1984. One further cut on that, if you would. Of the $3.2 billion and of the $2.9 billion, how much was the insurance part?

Mr. DRAPER. Of the $2.9 billion, insurance is about $1.5 billion—approximately half.

Representative IRELAND. And of the $3.2 billion?

Senator BOSCHWITZ. Pardon me for interrupting you, but you mean you have made more in direct loans this year than you did for the entire——

Representative IRELAND. I agree; that does not seem to jibe with that list of figures.

Mr. DRAPER. There is a lag in our reports from FCIA, which is an association of insurance companies, and the numbers really—if you want to compare, you might say that last year it was $1.861 billion for regular short-term insurance and on master policies, $369 million, and another $110 million of medium-term insurance. So the total is almost two-thirds last year, and the ratio is not that much different this year.

Representative IRELAND. Let me pursue this one step further.

Senator BOSCHWITZ. Please do.

Representative IRELAND. I would like to sort out some of this—what is the lending program and what is the FCIA program. When you were reading these figures, and we talked about $625 million being in assistance for small business exports or 20 percent of your total, as I listen to those figures, it seems to me that the vast majority of that was in the short-term and medium-term insurance program. They were in the 30 percent and 40 percent, and the others were down in the 5 percent of the loans and actually quite small figures.

Mr. DRAPER. No; there was nothing totally in the 5-percent category. Under medium-term credit, you should include—which is what I explained—the small business credit, which almost doubles that 5.5 percent number I gave you because it is a special medium-term loan category just for small business that really brings the total medium-term loans for small business up to about 10 percent. Every program is——

Representative IRELAND. What I am driving at is the real dollars are in the FCIA? Of this $465 million, in the short-term insurance program alone it is $456 million of it; right?

Mr. DRAPER. But that is the direction we are trying to go with the Bank, to get more exports through use of insurance and guarantees and reduce the subsidy—the direct credit. So it is not surprising.

Representative IRELAND. I missed that figure. The medium term is how much?

Mr. DRAPER. $116 million total; $30 million for small business.

Representative IRELAND. Medium-term insurance?

Mr. DRAPER. Yes, insurance.

Representative IRELAND. So, roughly, $490 million of that $625 million is in the insurance program; right?

Mr. DRAPER. Yes; that is correct.

Representative IRELAND. I guess what I would like to hear some more about, just very briefly, is the thrust of the whole Bank's program—be it small business or large business—is not to make as many direct loans as to emphasize insurance; is that what you are telling us?

Mr. DRAPER. If we can use guarantees—for example, we are using commercial banking——

Representative IRELAND. No, I mean the insurance part. I thought you were saying that it was the Bank's policy to emphasize——

Mr. DRAPER. No. I am saying it is not surprising that the direct loan level has fallen, and financial guarantees, for example, have become a larger portion of our activity, and insurance as well, because we are trying to provide coverage around the world, but we are trying not to provide any more subsidy than is absolutely necessary to block off foreign government intervention. These negotiations have brought the level below which we cannot go in interest rates up for all our countries. Commercial rates have fallen dramatically over the course of the last 3 years. When those commercial rates have fallen, it makes the demand for a highly subsidized loan drop. Now, the main reason why all our activity is down way below our authorization levels is pure and simple: The high price of

the dollar and the fact that exporters are having a devil of a time trying to make sales.

Representative IRELAND. Is it safe to say that what you are telling us is that the direct loan and the guarantee loan, that lending business is deemphasized, and the bulk of the dollar activity you have had has been in the FCIA insurance area?

Mr. DRAPER. No, I do not mean to say that we have deemphasized, really, anything. It is just that we are pleased that insurance and guarantees are growing, and we want them to grow, because they often mean that you are using commercial banks and you are not subsidizing with Government, or taxpayer, money. That is about the only point there. But you are right. Most of our activity has been on the insurance and guarantee side this year.

Senator BOSCHWITZ. Do you have any figures that would indicate how many of the people who came to your seminars—I think you said bout 1,400—how many have taken advantage of Eximbank afterward, new people who have taken advantage of it afterward? Do you have any sense of that?

Mr. DRAPER. Yes; but this is a very short period in which to count because this is a building process. It is not something you turn on and then immediately have results. I think it is going to be an ongoing program. We expect to do this year in and year out, keep building a relationship with small- and medium-sized companies so that they hear about us, they know about us, it is easier to get to. Those who were not appropriate for the seminar will not return the following year, but those who are getting more and more active will come in. But I cannot give you the exact response to it, except as I was saying in the testimony, most of the participants felt that it was a satisfactory program from their standpoint, and our hotline has been jumping off the desk. It has been a very active response from that standpoint.

That is all we are trying to get. We are not expecting that everybody, because of that conference, is going to be able to export where they did not before or that we will be able to finance them where we did not before.

Senator BOSCHWITZ. I notice that the hotline is jumping apparently at an increasing rate. That is a lot of calls. I trust that you are able to handle them effectively.

Mr. DRAPER. There are always a few problems in something like that. We have tried to change the system so that it rolls and they get properly passed off to the appropriate loan officer and so on. We think it is working quite well.

Senator BOSCHWITZ. As important as it is to get small business exporters to these hearings, it may be as, or perhaps more, important to get the banking community—particularly the smaller banking community—to these meetings. Do you have any sense or figure on how many of these 1,400 people were bankers, either small bankers or bankers in general?

Mr. DRAPER. I guess I cannot give you that. We are beginning to gather better information on each one of them. We have a questionnaire that they fill out. It identifies their interest—whether they are a bank or an exporter and so on—and we have not really accumulated all of that yet. We are constantly trying to revise

that. A reasonable guess would be 20 or 25 percent of the people probably were bankers.

Incidentally, I might say, Mr. Chairman, that the bankers have shown a lot of interest in spreading this. For example, in those four States we are going into, although I cannot quite believe it, we understand that there may be 3,000 banks.

Senator BOSCHWITZ. We have some 750, I think my staff told me this morning, in Minnesota. I am not sure if that counts all the branches.

Mr. DRAPER. We are sending out a flyer to all of them preceding this whole program to announce what we are doing in these various conferences and the people who will be available to meet with them. Also, at the end of each of these small business conferences that we have put on, we are setting up a new continuation by request, to have the bankers come back in the afternoon and meet just on the banking programs. It covers a little more of the nuts and bolts that would be more useful.

Senator BOSCHWITZ. We will also inform Minnesota bankers. I think we are having a conference on June 18 in Minnesota, and we will see to it——

Mr. DRAPER. That would be great.

Senator BOSCHWITZ. So, we will perhaps duplicate, to some degree, but a couple of shots instead of one will be useful, I think. If you intend to have this afternoon session at your Minnesota meeting, which I believe occurs on June 18, we would like to know that for sure. Then we will include that in our notice as well.

There is always the feeling, Mr. Draper, that the Eximbank really would rather deal with a few large customers, and it would be a little easier to implement its programs and perhaps a little less trouble and so forth. Doing volume with a lot of small sales is a little more difficult than doing volume with several large sales. But I would like to ask, What is the attitude of Eximbank, your own attitude? Is it being well received? We felt during the passage of the legislation that we had to push and pull, and there were some grunts and groans. Give us your thoughts, if you will.

Mr. DRAPER. I, myself, am a small businessman in my private-sector experience, and I had a very strong bias when I came to seeing that the small businesses would get proper servicing. My experience in the middle of Silicon Valley was that there are an awful lot of exporters out there who have great potential who have not yet benefited from using Eximbank, or have not been identified as possible exporters or have identified the potential use of the Eximbank. I admit fully that it takes awhile, when you come on cold, to learn a whole new system and to get everything under your belt.

I do feel that it took us some time to get steamed up on the issue, and certainly your prodding helped a lot in that regard. But I think that we have been very sensitive to small business, right from the top of the Eximbank ever since I have gotten there. It was not reluctance on our part to cooperate in trying to reach out. We did not have any budget to market to these people, and you understand it is a marketing problem as much as anything. It is not that we would prefer to deal with a large entity rather than a small entity, once they get into the Bank. The problem is getting them

into the Bank and making an appropriate financial arrangement with them.

So while there were many programs, they really were not hearing about it. So I went over and got from OMB a special budget authorization to help us in marketing, budget resources and the allowance of some new people to be dedicated to this special marketing and outreach program. We are really quite pleased now with the start that we have on it. I agree it is only a start, but I think we are becoming better known as a bank for small business, as opposed to a bank for big business. I really think that can continue to grow, because I think most of the new jobs in the country are being provided by small business growth.

We are preaching to the choir here. I am a great believer in trying to get the job done with the resources that we have. We are a small organization. We are only 344 people, and we cannot do the direct marketing at all. We have to try to do it through educating and training other agencies and working through the banks. That is the reason we have started these pilot programs, to try and also allow the banks to get our working capital program off the ground that might be effective.

Senator BOSCHWITZ. The attitudes in the Eximbank toward this program, in addition to your own attitude, you think are upbeat?

Mr. DRAPER. Absolutely upbeat. There is cooperation all through the organization. We all want to do it. We all know the mission. I honestly have to admit, I set up priorities when I first came. The first was to try and get out of this hole of a tremendous deficit that we were running at a very high rate, and the concern that we had that if we did not do some negotiation with the foreign countries, we were all going to be very bloody, and the taxpayers were going to be worse off, and no exporter would benefit related to another foreign entity.

The next priority was to bring the Bank into competitive position, because we really were not as competitive as we should have been. I have to admit that small business was the third priority, although it never left my mind because I came out of that whole field.

Senator BOSCHWITZ. I will yield to my colleague, Senator Kasten. There are many people who are very anxious to help you in your efforts and in the effort of spreading the word in the area of small business. Certainly there are many people in Minnesota who are very anxious to help you. So, if you do have those limited resources, please call on us. If it is something that we can do to promote those resources at this end, please also call on us for that.

Senator Kasten.

STATEMENT OF HON. BOB KASTEN, A U.S. SENATOR FROM THE STATE OF WISCONSIN

Senator KASTEN. Mr. Chairman, thank you. As you know, I am interested in the subject of the Eximbank's small business set-asides, not just from my perspective as a former small businessman or as a member of this committee. I am also the chairman of the Appropriations Committee's Subcommittee on Foreign Operations, which has the responsibility for funding the Eximbank. Several

weeks ago, on March 15, we had Eximbank Chairman Bill Draper before us, and we discussed this very issue. So I am glad to see that the Small Business Committee is following up on that inquiry.

The Eximbank small business program is not just of interest to us, Mr. Chairman. It is of growing and real concern to many in the small business community. As you recall, we recently had an annual meeting of our Small Business Committee's national advisory council, where small businessmen and women told us what they consider to be the foremost problems facing them and the Nation today. The Eximbank's activities were discussed at that time, and I know that the panel's chairman, Mr. Shaw Mudge of Connecticut, is particularly interested in this issue.

It is for the sake of small business people who are hungry for the chance to sell their goods abroad that we hold this hearing, and I hope that the Eximbank will be responsive to their needs.

I noted with interest the decision by Exim to begin a small business pilot program to increase its contacts with the small business community. I am delighted that Wisconsin is one of the four States nationwide chosen by Eximbank to try out the program. I understand that Wisconsin was chosen because of its base of potential exporters and its excellent financing system. I look forward to the success of this effort, and I would like to hear more about its progress.

Bill, can you tell us more about the small business program that you set up for Wisconsin, Illinois, Michigan, and Minnesota? Specifically, what kind of timetable do you have for this, what kind of results do you expect, and how will you measure those results to determine whether you are doing as well as you had hoped?

Mr. DRAPER. We have already started to train the Commerce Department people who have been assigned to help us market in those four States. They are in the Bank right now, learning our programs so that they can go out, we hope, on a full-time basis. I talked with Secretary Baldrige last night, and he agreed that this effort had to be successful because the cooperation between our two agencies is very important. But also, this pilot effort is going to be watched. As you point out, we are going to monitor it in order to make sure that it is effective and can go nationwide.

We have an "umbrella" insurance policy that will be available to the States, those four States that can write insurance, and they will handle the paperwork and the processing of these small companies and then send it to our New York FCIA office for the final underwriting. They are enthusiastic about this. We have worked with those four States and brought them into Eximbank. I have met with them, and the rest of the staff have met with them in very large orientation programs where each State agency may be able to become a marketing arm for us. So, we have the State agencies being one marketing arm, the Commerce Department with its people working on our behalf, and then our efforts with the commercial banks is just beginning. Although we have relationships with lots and lots of banks around the country, we are making a special effort in those four States to really immerse the commercial banks in our programs so that they can also help us to write more effectively insurance and make available our medium-term programs or small business programs and so on.

We expect this umbrella policy to be effective about July 1. It could be written by any State agency as well as other entities; an accounting firm could even become an umbrella-policy writer.

Senator KASTEN. That policy, for at least the time being, can only be written in these four States; is that correct?

Mr. DRAPER. No; that is not quite correct.

Senator KASTEN. I am trying to get a sense of what is special about the four States. If we have this hearing 1 year from now, how are we going to know that what we did for the four States was good, bad, or indifferent?

Mr. DRAPER. First of all, it is a marketing effort. We are not making a special deal for Wisconsin, really, as such. We are trying a marketing effort to reach a lot of small businesses and small banks in Wisconsin that do not even know we exist. So this is really a marketing program.

Senator KASTEN. So your product is the same nationwide, but you are trying to target it?

Mr. DRAPER. That is it.

Senator KASTEN. And these four people who are being trained specially are going to be essentially outreach or marketing people?

Mr. DRAPER. There are more than four who are being trained. Yes, they are outreach people from the Commerce Department and also from the States, who want to be able to work with FCIA and with us by taking out an umbrella policy. We also have very specifically for these four States, which we will not have for others, a working-capital delegated-authority program for the commercial banks. That is different in that we allow them to write up to $300,000 of working capital guarantees and book us on it.

Senator KASTEN. Is the $300,000 figure a per State total or a total for the four States?

Mr. DRAPER. No, no. Per exporter.

Senator KASTEN. That is the same in each of the four States?

Mr. DRAPER. Per contract, in effect. Any bank could write $1.5 million in five different accounts—so that it is $300,000 per exporter—and that program is effective July 1. That is what we will be working hard on, trying to package those programs a little better to make them clear. That, I think, is the biggest program—the only real program difference that is available to those four States that is not available anywhere else.

Senator KASTEN. I misspoke when I said four people are being trained: I assumed you were doing one for each State.

Mr. DRAPER. The four States.

Senator KASTEN. You have a whole gang of them, then?

Mr. DRAPER. Right.

Senator KASTEN. Are these people being trained specifically for these four States?

Mr. DRAPER. Yes, they are specifically in those four States, to get the word out that we have a working capital program and that the banks can commit us with delegated authority. They can make a loan and commit our guarantee authority up to $300,000 per exporter, so that they can reach out where we never possibly would be able to reach them. We are going to monitor it in order to evaluate this program when it is over. You know, we cannot say exactly

how successful it will be. If we do not write any additional business in those four States, it will have been a complete failure.

Senator KASTEN. Do you have a specific goal? Do you want to, say, double the Eximbank business with small business in these four States, or do you want to increase it by just 10 percent? How would you gauge success without establishing goals?

Mr. DRAPER. We have been very loose about that. We have not honestly set a goal, because we are working in unknown territory right now. We are just trying to see how it goes. We will know in a year. This is going to be done for a year, and we will know at the end of a year how this is doing. But if we set any arbitrary goal, we might go way beyond it and feel terrific about it, but it still might be improved. So I think we are just monitoring it. As we go along, we probably will begin to set goals. But we are very excited about it. We feel that it is a good way to approach the objective rather than just take on the whole country. We think we can control this a little better.

FCIA has an office in Chicago, and we are planning to use the people who are in that office as a sales organization, training banks and others who are involved. FCIA will be doing the actual underwriting back in New York. It is a very big job, as you know. Any time a 344-employee entity begins to try to attack 3,000 or 4,000 other entities with any kind of a program, it is difficult. You have to work through other people, which is what we are trying to do.

Senator KASTEN. We are anxious to work with you, and I am also pleased that later this morning on one of the panels we do have a Wisconsin businessman from Menomenee Falls, Jerry Maahs, who will be here talking about this. I hope that all of us can work with you. We want to make this thing work. We are anxious and, frankly, very pleased that Wisconsin is one of the targeted States. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Mr. Draper, finally, unless Congressman Ireland has more questions, you are having a conference in Minnesota on June 18, to give further clarification to this program?

Mr. DRAPER. Right. That is one of our small business seminars. In fact, are you going to be able to attend that, Senator?

Senator BOSCHWITZ. I will try. My question is, Are you holding a similar meeting in Wisconsin? What day of the week?

Mr. DRAPER. Yes, we will. That is a Monday, Senator.

Senator BOSCHWITZ. I may be able to attend.

Are you holding one in Wisconsin soon? Has one been scheduled?

Mr. DRAPER. We have had one, and we will be doing it again, but we do not have one scheduled soon because we have been there inside the last 6 months. We will be going back in probably another 6 months. But I want you to understand that with, this program, we will be in Wisconsin and Minnesota all the time. We have people who will be constantly working there. We have many dedicated to helping these "salesmen," as we can call them, get out into the field. But this is a special small-business seminars program that is going through all States, not just the four States that you referred to, sir.

Senator BOSCHWITZ. Thank you very much, Mr. Draper. We appreciate your testimony, and we urge you on with respect to the

efforts of the Eximbank, with respect to small business. Not only does it sound like it is becoming more of a guarantee program than a direct loan program, I trust the guarantees will apply not only to preexport but to post shipment as well. I urge you on and urge you to enunciate with your people the desirability of this whole program.

Mr. DRAPER. Thank you very much, Mr. Chairman. I, too, would like to add my welcome to Congressman Ireland to the Republican Party.

Senator BOSCHWITZ. On his behalf, I thank you.

I might say to my friend from Wisconsin that we are going to have a conference on June 18, and perhaps we will circularize our banks. Since the whole western part of your State might want to come, maybe we can do that together.

[Subsequent information was received and follows:]

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ALAN L. CHVOTKIN, MINORITY CHIEF COUNSEL

United States Senate
COMMITTEE ON SMALL BUSINESS
WASHINGTON, D.C. 20510

June 20, 1984

Honorable William H. Draper, III
Chairman
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, D. C. 20571

Dear Mr. Chairman:

In examining the transcript from the hearing which the Senate Small Business Committee's Subcommittee on Export Promotion and Market Development held on May 10, 1984 on the EX-IM Bank's set-aside provisions of Public Law 98-181, we note that there still remained a few questions to be answered which time did not permit at the time of the hearing.

We would appreciate it very much if you would provide us with a written response to the following questions:

1. Breakdown of the total commitment authority for FY'84.

2. What amount available in total authority has been committed as of the latest date?

3. What is the amount of small business participation, excluding subcontractors, as a percentage of year to date commitments?

4. How many transactions between $1-5 million, between $5-15 million, and over $15 million have been committed year to date?

5. Amount and types of commitments under 1 year, between 2-6 years.

Again, thank you for taking the time to attend the hearing.

Sincerely,

RUDY BOSCHWITZ
Chairman, Subcommittee on Export Promotion and Market Development

LOWELL WEICKER, Jr.
Chairman
Senate Committee on Small Business

President and Chairman

July 12, 1984

The Honorable Lowell Weicker, Jr.
Chairman
Committee on Small Business
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

The following information is provided in response to the letter of June 20, 1984, signed by you and Chairman Boschwitz, requesting additional information for the hearing held on May 10, 1984 by the Senate Small Business Committee's Subcommittee on Export Promotion and Market Development.

1. Breakdown of total commitment authority for FY 1984.

Direct Loans	($ Millions)
Regular Loans	$3,265
Medium-Term Credits	500
Small Business Credits	100
Direct Loan Limitation	$3,865

Guarantees & Insurance	
Financial Guarantees	$ 1,060
Medium-Term Guarantees	1,000
FCIA Insurance	7,940
Guarantee and Insurance Limitation	$10,000

2. What amount available in total authority has been committed as of the latest date?

For FY 1984 through May 31, 1984, authorizations committed are:

Direct Loans	($ Millions)
Regular Loans	$ 502.6
Medium-Term Credits	175.0
Small Business Credits	26.8
Total Direct Loans	$ 704.4
Guarantees & Insurance	
Financial Guarantees	$ 585.0
Medium-Term Guarantees	323.6
FCIA Insurance	3,291.7
Total Guarantees & Insurance	$4,200.3
Total Commitments	$4,904.7

3. What is the amount of small business participation, excluding subcontractors, as a percentage of year-to-date commitments?

For FY 1984 through May 31, 1984, small business commitments, excluding subcontractors, are:

	Small Business Commitments ($ Millions)	% Small Business to Total Commitments
Medium-Term Credits	$ 1.9	1.0%
Small Business Credits	26.8	100.0
Medium-Term Guarantees	23.8	7.4
FCIA Insurance	735.0	22.3
Total Small Business Commitments (excluding subcontractors)	$787.5	16.1

4. How many transactions between $1-5 million, between $5-15 million, and over $15 million have been committed year-to-date?

	Number of Transactions
$1 - 5 Million	399
$5 - 15 Million	86
over $15 Million	38

5. Amount and types of commitments under 1 year, between 2-6 years.

	Under 1 year		2 - 6 Years	
	No. Transaction	Amount Millions	No. Transactions	Amount Millions
Medium-Term Credits	-	-	89	$175.0
Small Business Credits	-	-	62	26.8
Medium-Term Guarantees	-	-	140	323.6
FCIA Insurance	685	$3,152.6	49	139.1

If there are any further questions, please contact us.

Sincerely,

William H. Draper III

cc: The Honorable Rudy Boschwitz
Chairman, Subcommittee on
Export Promotion and Market
Development
United States Senate
Washington, D. C. 20510

Senator BOSCHWITZ. We now ask the first panel, Mr. Duc Lam, Gordon Harrison, Darin Narayana, and James Fassino to come up. We are prepared to receive their testimony.

Senator Kasten, are you leaving?

Senator KASTEN. I am leaving because I am going to chair a meeting.

Senator BOSCHWITZ. I have another hearing as well.

We may promote you to the Senate.

Representative IRELAND. I am late for my Foreign Aid.

Senator BOSCHWITZ. We will take testimony now from Messrs. Lam, Harrison, Narayana, and Fassino in that order. We ask you to be as brief as you reasonably can, in order to make all the points that you wish to make. I notice that Mr. Lam has shorter testimony and longer testimony, and the entirety of your testimony will be made part of the record.

Proceed, please.

STATEMENT OF DUC LAM, EXECUTIVE DIRECTOR, MINNESOTA EXPORT FINANCE AUTHORITY, ST. PAUL, MN

Mr. LAM. Thank you, Mr. Chairman and members of the committee. My name is Duc Lam. I am the director of the Minnesota Export Finance Authority. I thank the chairman and the committee members for allowing me to testify on this most important issue.

The effective implementation of the small business set-aside, as prescribed in section 618 of the U.S. Export-Import Bank's charter, is critical to our Nation's small business exporting community. Given the time constraints, I will be brief and to the point. I ask the chairman and the committee to accept my written testimony, and I will just summarize the testimony.

The pilot program as presented by Mr. Draper is a move in the right direction. Allowing all eligible banks to have delegated authority in Eximbank's working capital loan guarantee program up to $300,000 per customer and allowing banks and other agents to purchase a new-to-export umbrella FCIA policy provide the opportunity for banks and others to become active players in financing international transactions. The work of the Commerce Department, the limited training sessions, and the information programs will make banks and others more aware of this opportunity. The question, however, is: Will the products that are being marketed sell? Will small banks take advantage of this opportunity?

From my 14 years in the private financial sector and from my experience in working with banks as director of MEFA, I think that the program is on weak ground. I think it will be difficult for the program to succeed unless we address some of the following points.

Small banks usually will not accept risk that is in any way related to foreign risk, even for only 10 percent, because they do not understand this type of risk and because they are not in a position to take this type of risk. A guarantee in the preexport portion of a transaction does not necessarily mean that it is devoid of foreign risk.

The pilot program has no coordination between the financing of the preexport portion and the postexport portion of the transaction. Considering the preexport and the postexport needs at the same time is the most effective way to finance an export.

While the program will inform banks, there is little education and encouragement built into the program. In order to educate the small banking community, it will take much more than sporadic 1- or 2-day training sessions. We offer to help Eximbank accomplish this.

The pilot program also does not use one of the most important agents in the State of Minnesota to the fullest extent possible. That agent is the Minnesota Export Finance Authority.

The magnitude of the challenge facing Eximbank in Minnesota has been underestimated. For example, as of December 31, 1983, there were 751 banks in the State, 431 of them had assets of under $25 million; 283 between $25 million and $100 million; and 33 had assets between $100 million and $500 million. These are small banks. Out of the 751 banks, only four had assets greater than $500 million. Exim has delegated authority to six banks in Minnesota, only two of which use this authority with any regularity. I am not convinced that the pilot program will reach a meaningful number of the remaining 749 banks in the State of Minnesota.

The State of Minnesota has requested Eximbank to delegate authority to MEFA for the working capital loan guarantee program, that is, to coguarantee our guarantees and delegate authority to MEFA for the new-to-insurance program. Minnesota is the only State that has an operating export finance agency, with both preexport and postexport authority. We have accepted applications and gone through the guarantee decisionmaking process. We have a skilled staff and the support of the private banking community in Minnesota.

Minnesota banks would like the option of working with Eximbank programs through MEFA. MEFA is close to the export and financial community in Minnesota; we can interact on a daily basis. Banks know that the paperwork is reasonable and completed in a timely manner. They know that if we have a claim, it will be honored within 30 days. The banking community has confidence in MEFA.

MEFA could be of great assistance to Eximbank in fulfilling its obligation of the small business setaside. Delegation of authority from Eximbank and FCIA within the parameters of the pilot program would enhance the probability of a successful program in Minnesota. Such delegation would also provide Eximbank the experience necessary to have a more efficient and effective relationship with other State export finance agencies when they come into existence.

MEFA has been acting as a facilitator for Eximbank. We do not need a pilot program to carry out this function. The pilot program will take on meaningful dimensions in Minnesota only if MEFA receives the requested delegated authority. The response from the banking community will be less if MEFA is not allowed to act as a meaningful agent of the Eximbank.

I thank the committee for the opportunity to address it on this subject. I will be pleased to respond to any questions. Thank you.

[The prepared statement of Mr. Lam follows:]

TESTIMONY BY DUC LAM, EXECUTIVE DIRECTOR

MINNESOTA EXPORT FINANCE AUTHORITY, 90 W. PLATO BLVD., ST. PAUL, MN 55107

BEFORE THE SUBCOMMITTEE ON EXPORT PROMOTION AND MARKET DEVELOPMENT

OF THE SENATE SMALL BUSINESS COMMITTEE

MAY 10, 1984

Mr. Chairman:

Members of the Committee:

Introduction:

I thank the Chairman and Members of the Export Promotion and Market Development Subcommittee of the Senate Small Business Committee for allowing me to testify on the progress Minnesota has made toward assisting small and medium sized exporters in obtaining financing for their exports; and presenting our views of the U.S. Export-Import Bank's proposed pilot program.

To introduce myself; I am Duc Lam, Director of the Minnesota Export Finance Authority. I have 14 years experience in the field of international finance within the private financial sector. From 1967 to 1981 I was with American National Bank of St. Paul and Norwest Bank of St. Paul and Minneapolis where I held the position of Assistant Vice President, International Trade Finance. In addition, from 1981 to 1983 I was the Vice President for International Sales and Marketing for Conklin Company, a 50 million dollar chemical company

in Minneapolis. During this period I worked with large and small firms; I have the understanding and am aware of the problems, fears, and concerns faced by small and medium sized businesses and banks when faced with an international transaction. It is this experience that helped form the Minnesota Export Finance Authority (hereafter MEFA) and from which I draw when commenting on the EX-IM's proposed pilot program.

My comments will be brief and to the point; first I will describe MEFA for the Committee. The purpose of this description is twofold; first, to demonstrate explicitly that Minnesota recognizes the financing needs of its smaller exporters and has allocated resources to assist its exporters in this regard; and second, to inform the Committee that Minnesota is the first state to have an operative pre export finance mechanism, which is at this moment assisting the State's export community. In addition, we have been recently authorized to provide post-export guarantees or insurance.

Next I will comment on the EX-IM's proposed pilot program; identifying what we perceive as its strengths and weaknesses, and suggest certain adjustments which will increase the probability of the success of the program.

Description of the Minnesota Export Finance Authority:

MEFA was created by Minn. Stat. §17.104 (Supp. 1983) as amended by Laws of Minnesota 1984, chapter 461. Rules and Regulations were promulgated and MEFA became an operating unit by the end of Feb. 1984. Minnesota's desire to assist small exporters while working within the existing structure of the State's private banking sector resulted in MEFA's loan guarantee program for both the pre and post-export portions of an international transaction. It is our intent to increase exports by guaranteeing private bank loans that would not have

occured without the guarantee; it is in Minesota's, and the United States' public interest to do so.

Given the limited resources of the State, MEFA was authorized and appropriated a capital base of $2 million with a four-to-one loss reserve ratio, that is, the $2 million will support $8 million worth of Minnesota export sales at any point in time. Both the duration and the maximum amount of the guarantee lie within the limits as proposed in EX-IM's pilot program.

With the Chairman's permission I wish to attach MEFA's authorizing legislation, rules and regulations, guarantee application forms, and marketing pamphlets which are directed toward the banking community and small exporters to my written testimony for the record.

Since MEFA became operational we have received 4 applications; our Board of Directors, composed of persons from the banking and legal profession who have international finance expertise, has reviewed one application and will be reviewing the other 3 as soon as all supporting documents are presented. To demonstrate that MEFA's objective is to assist exporters in exporting, not just issuing guarantees, I would like to describe a recent experience. A Minnesota company applied for a MEFA guarantee; the firm met all the requirements for the guarantee — we could have provided it without question. However, through MEFA's counseling and guidance the firm was able to complete the transaction without a guarantee from the State or a Federal Agency. Jobs were maintained, and goods were exported without the aid of public monies. While MEFA could have provided the guarantee and received its fees, there was an alternative to accomplish the prime objective of increasing exports; that alternative was used.

EX-IM's Proposed Pilot Program;

The program developed by Eximbank is referred to as a marketing program; The Fact Sheet produced by Eximbank and attached to this testimony so describes it. The cooperative relationship between EX-IM and the U.S. Department of Commerce is positive and impressive. Utilization of existing Federal resources, even with the extensive training program required to bring these resources "on-line", will certainly "spread the word" and increase awareness of pre and post-export financing mechanisms available to small business and small banks from EX-IM and FCIA. Eximbank's employment of a communications firm to assist in the promotion effort will very likely be of benefit also.

The programs that will be marketed are an improvement over the past. The FCIA "Umbrella Policy" when offered to freight forwarders, accounting companies, law firms, export trading and management companies, and banks will provide these organizations with an additional service to offer their clients if they choose to avail themselves of the post-export insurance. The willingness of Eximbank to delegate authority to eligible lending institutions of its Working Capital Loan Guarantee Program up to an amount of $300,000 perworking capital loan is a generous offer. Eximbank's proposal is a step in the right direction. However, we believe there are some major shortcomings in the proposal that could spell failure for the pilot program.

Suggested Adjustments to EX-IM's Proposal;

Minnesota believes that Eximbank and FCIA could improve their programs and increase the probability of success if they took advantage fully of the tools available to them. The financial tool that is not being utilized is the services of MEFA. Minnesota has urged Eximbank to use the Minnesota Export Finance Authority to an extent greater than that referred

to in the Fact Sheet; "as a facilitator and distributor.". EX-IM should allow MEFA to have delegated authority in the Working Capital Loan Guarantee program and FCIA should delegate authority to MEFA for its "new-to-export" short term umbrella insurance policy.

The reasons for this are as follows:

Eximbank desires to reach a greater number of banks (lenders) that will participate in and make use of the pre-export working capital loan guarantee program. Obviously, there is a requirement that the loan be export related. I can say without hesitation that it will be very difficult to encourage a small bank to participate if that bank has the slightest exposure of foreign risk or if the exporting firm has to dependent on receiving payment from a foreign buyer to meet his obligation to the bank. Small banks will simply not assume any risk associated with a foreign transaction, even for only 10%, because they do not understand this type of risk or because they are not in a position to take this type of risk.

To give you an idea of the challenge lying before the EX-IM Bank in Minnesota, I present the following. As of December 31, 1983 there were 751 banks in Minnesota with total assets of $44.4 billion. Of this number, 431 banks had assets of $25 million or less; average assets of $13.4 milion. These are small banks. There were 283 Banks with assets between $25 million and $100 million; these are small banks (average assets of $48.3 million.) Banks with assets between $100 million and $500 million with average assets of $200 million numbered 33. There were only four banks with assets greater than $500 million. The assets of these 4 banks (all 4 located in the Twin Cities, in the Southeast corner of Minnesota, a state with 84,400 square miles) total $18.3 billion or 41.2% of the total assets of all 751 banks. In addition,, banks in the Twin City Metropolitan area hold more than 65% of the total banks' assets.

Out of the 751 banks, 5 banks are Exim's approved banks; with only two banks using EX-IM Bank programs with any regularity. The question is, can the pilot program encourage the four banks that already have the capability to work with EX-IM to do so with greater regularity? Can the pilot program encourage a portion of the remaining 746 banks to use the delegated authority of the Working Capital Loan Guarantee program? The answer to the first one is "may be", the answer to the second is "unlikely". EX-IM will have a tremendous job just informing these banks of the opportunity let alone convincing them to participate in the program.

With regard to the FCIA new-to-export umbrella policy; while many proposed agents are suggested to market the policy, the FCIA office in Chicago and/or New York will continue to review and approve each insurance transaction. A major part of the successful financing of an export transaction is the timely and coincidental consideration of the pre and post-financing needs of the particular sale. The time required to obtain approval from FCIA out of Chicago and/or New York creates the potential for slowing unduly the total financing package required and possibly losing the contract.

Furthermore, the proposed pilot program fails to have a mechanism to coordinate the pre and post portions of the export transaction. As the program is currently structured, two separate entities would be making a judgment on the transaction; one for the pre-export portion and one for the post-export portion. There is the distinct possibility that one side of the transaction could be approved without approval of the other. This set of conditions would cause confusion and dissatisfaction for both the exporter and financing agent. More importantly it could be the cause of a loss of exports that would have taken place if there had been some simple coordination of the pre and post-export financing requirements.

While banks will have the opportunity to support its post-export loan with an FCIA new-to-export umbrella policy, it is doubtful that any smaller banks will choose to do so; the banks would have (or could have) some risk and as stated earlier, would not be willing to accept such risk.

This FCIA new-to-export umbrella policy requires a "whole turnover" while current FCIA bank policies do no require the exporters to insure all of their foreign receivables.

Having described some of the problem areas of the pilot program the question can be raised; how can delegation of authority to MEFA ameliorate the problems? I will address that question now.

When Minnesota created and funded MEFA it wanted a guaranteeing authority that would address the pre and post financing needs of its exporters in an expeditious manner. Minnesota wanted an agency that would be able to consider the pre and post portions of a transaction simultaneously so as to ensure the successful culmination of an export sale. MEFA has the staff and structure to accomplish these objectives.

MEFA has been working with the private financial community; developing confidences between the banks and MFA. Please see attached letter from the Independent Bankers of Minnesota and the Minnesota Bankers Association as to the relationship between MEFA and Minnesota's private banking sector. The banks in Minnesota know that they can work with an agency that is within travel distance; they know that their guarantee applications will be processed within a reasonable time period and either be accepted or rejected; they know that if there is cause for a claim, the claim will be paid off within 30 days; and they know that the paper work will not overwhelm them.

If Eximbank and FCIA delegate limited authority to MEFA, we could act as an effective agent for both within Minnesota. The outreach desired by EX-IM and FCIA would be increased; the costs of EX-IM's Marketing Program would be decreased in Minnesota. Given MEFA's structure small banks would not have to absorb any foreign risk; the State of Minnesota has chosen to bear that portion of the risk normally carried by banks. We believe that small Minnesota banks would be much more inclined to become involved in international finance if they could work through MEFA. The program would succeed.

Minnesota has sought the guidance and council of Eximbank throughout the creation process of MEFA. We requested suggestions, comments, and guidance from EX-IM when MEFA's authorizing legislation was being considered and we requested comments and guidance when our rules and regulations were promulgated. In addition, we have been responsive to EX-IM's request of comments on the pilot program both as a member of the National Association of State Development Agencies and independently. Minnesota went so far as to submit a pilot program for its and other state finance agencies. Please see attachment. We are pleased to have been invited to participate in discussions surrounding the pilot program; we regret not receiving responses from EX-IM to our requests during the formulation of MEFA.

Minnesota is cognizant of and empathetic to the concerns EX-IM has with regard to delegating authority to state export finance agencies. Several concerns which have been expressed are, states do not have post export authority; staff expertise has not been demonstrated; and state finance agencies do not have a "track record." We believe Minnesota and MEFA are unique. Minnesota is the only state that has an export finance agency with an operating pre-export program and authority for a post export program. Minnesota has an agency that can respond to Exim and FCIA's needs. MEFA's staff has the "hands-on" experience

of a lender; MEFA has the confidence and cooperation of the private financial community, the confidence and cooperation that Eximbank will have to develop over time. We are a tool that Exim can use to meet its responsibilities as set forth in Section 618 of its charter.

The proposed pilot program gives state finance agencies the role of 'facilitator' and 'distributor.' Minnesota does not need a pilot program for MEFA to act as a facilitator and distributor. To quote portions of EX-IM's Fact Sheet; MEFA, "as a facilitator" has been "advising small business on trade financing and Federal programs, and assisting them in obtaining the necessary financing through commercial institutions." MEFA does not need a pilot program to obtain an FCIA coverage. While terms would be less favorable, we could still have that capability without the pilot program. In other words, there is nothing in the pilot program that utilizes the Minnesota Export Finance Authority's capabilities; there is nothing for a state export finance agency.

The four-state pilot program provides Exim with the opportunity to test the effectiveness of all financing mechanisms by expanding its to reach to small exporters and financial institutions. EX-IM would have something very close to a controlled experiment if it granted delegated authority to MEFA. EX-IM could compare the results in Minnesota to her sister states of Wisconsin, Illinois and Michigan; we are confident that EX-IM would be pleased with the results in Minnesota.

We in Minnesota stand ready to support EX-IM's efforts to increase U.S. exports. We can best do this if EX-IM and FCIA would delegate limited authority to MEFA. Without such delegation we are less than optimistic about the response of the Minnesota export and finance communities to the proposed program. The distance, potential time delays, and the educational program required to bring the banking sector on board, all bid ill for the pilot program.

We ask the Committee to consider our offer to the EX-IM Bank. However, regardless of the ultimate form of the pilot program, we assure this Committee that MEFA will continue to assist Minnesota exporters by increasing their awareness of all financing means available to them, private, Federal and State.

Again, I thank the Committee for the opportunity to testify on this important matter. I would be pleased to answer any questions from the Committee Chair or Committee Members.

ATTACHMENTS:

1. MEFA's Authorizing Legislation with Amendments
2. MEFA's Rules and Regulations
3. MEFA Pamphlets - Banks and Exporters
4. Application form and guaranty form, also fact sheets
5. Copy of letter from Independent Bankers of Minnesota and Minnnesota Bankers Association to Mr. Draper of Eximbank.
6. Copy of letter from Aldin Export and Import
7. Copy of Minnesota's proposed pilot program with cover letter.
8. EX-IM's Fact Sheet - Marketing Program

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AN ACT

S.F. No. 1977
CHAPTER No. 461

relating to economic development; clarifying provisions relating to the export finance authority; amending Minnesota Statutes 1983 Supplement, sections 17.104, by adding a subdivision; and 17.105, subdivisions 1, 3, 4, and 7.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 1983 Supplement, section 17.104, is amended by adding a subdivision to read:

Subd. 4. [POST-EXPORT.] "Post-export" means the period of time between a shipment of goods and receipt of final payment for the goods.

Sec. 2. Minnesota Statutes 1983 Supplement, section 17.105, subdivision 1, is amended to read:

Subdivision 1. [CREATION; PURPOSE.] The export finance authority is created to aid and facilitate the financing of exports from this state. The finance authority powers shall be used exclusively to meet the pre-export credit needs of Minnesota exporters.

Sec. 3. Minnesota Statutes 1983 Supplement, section 17.105, subdivision 3, is amended to read:

Subd. 3. [POWERS.] The finance authority has the power and authority to perform the following functions and may:

(1) insure, coinsure, and guarantee against commercial pre-export and post-export credit risks;

(2) sue and be sued;

(3) enter into agreements and transactions with any person, partnership, or corporation, both foreign and domestic, state, federal, and foreign governments and governmental agencies;

(4) acquire and hold personal and real property pursuant to the provisions of insurance and the granting of guarantees;

(5) pledge and appropriate collateral;

(6) charge premiums, interest, and fees;

(7) provide administrative, consultative, and technical services to assist in the financing of exports;

(8) prepare and receive reports regarding credit, insurance, and guarantees with respect to export finance;

(9) perform all necessary and appropriate operations, administration, processing, and marketing functions related to the authority's functions; and

(10) adopt rules necessary to carry out responsibilities under this section.

Sec. 4. Minnesota Statutes 1983 Supplement, section 17.105, subdivision 4, is amended to read:

Subd. 4. [WORKING CAPITAL ACCOUNT.] An export finance authority working capital account is created as a special account in the state treasury. All premiums, interest, and fees collected under section 17.105, subdivision 3, clause (6) must be deposited into this account. Money in the account including interest earned and appropriations made by the legislature for the purposes of section 17.105, is appropriated annually to the finance authority for the purposes of this section.

Sec. 5. Minnesota Statutes 1983 Supplement, section 17.105, subdivision 7, is amended to read:

Subd. 7. [INSURANCE AND GUARANTEES.] The finance authority may provide insurance and guarantees to the following extent:

(1) The finance authority may not provide to any one person insurance or guarantees in excess of $250,000, for pre-export transactions and $250,000 for post-export transactions. When insuring, co-insuring, or guaranteeing the post-export portion of transactions, the finance authority shall retain not more

than ten percent of the commercial risk, or alternatively, the normal and standard deductible of the insurance policy.

(2) The policy of the finance authority is to provide insurance and guarantees for export credits that would otherwise not be made and that the chairman and the board deem to represent a reasonable risk and have a sufficient likelihood of repayment.

(3) The finance authority shall contract with, among others, the Foreign Credit Insurance Association, the U.S. Export-Import Bank, and private insurers to secure insurance or reinsurance for country and commercial risks for the finance authority's insurance program. The finance authority may purchase insurance policies using moneys from the finance authority's appropriations.

(4) Losses incurred by the finance authority that relate to its insurance or guarantee activities shall be solely borne by the finance authority to the extent of its capital and reserves.

S. F. No. 1977

Jerome M. Hughes
President of the Senate.

Harry A. Sieben, Jr.
Speaker of the House of Representatives.

Passed the Senate this 16th day of April in the year of Our Lord one thousand nine hundred and eighty-four.

Patrick E. Flahaven
Secretary of the Senate.

Passed the House of Representatives this 18th day of April in the year of Our Lord one thousand nine hundred and eighty-four.

Edward A. Burdick
Chief Clerk, House of Representatives.

Approved

4/24/84

Rudy Perpich
Governor of the State of Minnesota.

Filed

April 24, 1984

Joan Anderson Growe
Secretary of State.

agency has the internal capability to make the judgments required by subdivision 3.

Sec. 6. [17.103] [TRADE AND EXPORT DEVELOPMENT.]

The commissioner of agriculture shall encourage and develop commerce with other states and foreign countries and devise ways and means of removing trade barriers hampering the free flow of commerce between this and other states.

Sec. 7. [17.104] [DEFINITIONS.]

Subdivision 1. [SCOPE.] For the purposes of section 8, the following terms have the meanings given them.

Subd. 2. [FINANCE AUTHORITY.] "Finance authority" means the export finance authority.

Subd. 3. [PRE-EXPORT.] "Pre-export" means that period of time between the formation of a sale and the actual shipment of the goods.

Sec. 8. [17.105] [EXPORT FINANCE AUTHORITY.]

Subdivision 1. [CREATION; PURPOSE.] The export finance authority is created to aid and facilitate the financing of exports from this state. The finance authority powers shall be used exclusively to meet the pre-export credit needs of Minnesota exporters.

Subd. 2. [BOARD OF DIRECTORS.] The governor shall appoint six members to the authority's board of directors. The six members shall be knowledgeable in international finance, exporting, or international law. The commissioner of agriculture shall be chairman of the board. Membership, terms, compensation and removals are governed by section 15.0575. Board members shall perform their duties in a nonselfserving manner and in compliance with section 10A.07.

Subd. 3. [POWERS.] The finance authority has the power and authority to perform the following functions and may:

(1) insure, co-insure, and guarantee against commercial pre-export credit risks;

(2) sue and be sued;

(3) enter into agreements and transactions with any person, partnership, or corporation, both foreign and domestic, state.

federal, and foreign governments and governmental agencies;

(4) acquire and hold personal and real property pursuant to the provisions of insurance and the granting of guarantees;

(5) pledge and appropriate collateral;

(6) charge premiums, interest, and fees;

(7) provide administrative, consultative, and technical services to assist in the financing of exports;

(8) prepare and receive reports regarding credit, insurance, and guarantees with respect to export finance;

(9) perform all necessary and appropriate operations, administration, processing, and marketing functions related to the authority's functions; and

(10) adopt rules necessary to carry out responsibilities under this section.

Subd. 4. [WORKING CAPITAL ACCOUNT.] An export finance authority working capital account is created as a special account in the state treasury. Money in the account is appropriated to the finance authority for the purposes of this section.

Subd. 5. [ANNUAL REPORT.] The chairman and board of directors shall submit to the governor an annual report on the activities of the finance authority.

Subd. 6. [LIABILITY LIMITATION.] The finance authority may not have at any one time net liabilities greater than four times its capital and reserves.

Subd. 7. [INSURANCE AND GUARANTEES.] The finance authority may provide insurance and guarantees to the following extent:

(1) the finance authority may not provide to any one person insurance or guarantees in excess of $250,000;

(2) the policy of the finance authority is to provide insurance and guarantees for export credits that would otherwise not be made and that the chairman and the board deem to represent a reasonable risk and have a sufficient likelihood of repayment;

(3) the finance authority shall contract with, among others, the Foreign Credit Insurance Association, the U.S.

Export-Import Bank, and private insurers to secure reinsurance for country and commercial risks for the finance authority's insurance program;

(4) losses incurred by the finance authority that relate to its insurance or guarantee activities shall be solely borne by the finance authority to the extent of its capital and reserves.

Subd. 8. [STAFFING.] The commissioner of agriculture shall provide staff to work for the finance authority.

Sec. 9. [17.106] [EXPORT INFORMATION OFFICE.

Subdivision 1. [CREATION; DIRECTOR.] An export information office is created in the department of agriculture. The commissioner of agriculture shall appoint a director of the export information office in the unclassified service.

Subd. 2. [PURPOSE; DUTIES.] The export information office shall:

(1) create a worldwide foreign communication network to coordinate foreign trade information and activities;

(2) compile foreign trade information available from, among other places, the United States Department of Commerce and private sources, and produce readily consumable marketing information;

(3) create a program to assess the potential of international investment in Minnesota and promote international investment which results in the infusion of new capital and the creation of new jobs to the benefit of the state;

(4) disseminate to Minnesota businesses collected market information that relates to potential exporting, and to export trading companies, export management companies, and other interested persons;

(5) prepare a list of firms that provide export support services and disseminate the list to potential exporters to assist their endeavors;

(6) assist public and private universities or colleges to develop undergraduate or graduate level education programs to train persons in the knowledge of export trading; and

(7) coordinate the current international trading activities of various state and local agencies and organizations.

Rules as Proposed (all new material)

3 MCAR S 1.0090 Scope.

Rules 3 MCAR SS 1.0090-1.0100 are made pursuant to Laws of Minnesota 1983, chapter 289, section 8, to implement and establish criteria for the facilitation of export financing by the Minnesota Export Finance Authority.

3 MCAR S 1.0091 Definitions.

A. Scope. For the purposes of 3 MCAR SS 1.0090-1.0100, the terms defined in this rule have the meanings given them.

B. Affiliate. Concerns are "affiliates" of each other when one concern directly or indirectly controls or has the power to control the other, or a third party controls or has the power to control both concerns.

C. Board. "Board" means the board of directors of the MEFA appointed by the governor, and the commissioner of agriculture or his designee as chairman of the board.

D. Control. "Control" may exist through management, contracting, or stock ownership. "Control" exists through stock ownership if a party has the power to control more than 50 percent of the voting stock. "Control" exists through management if the officers, directors, employees, or principal stockholders of one concern serve as a working majority of the board of directors or officers of another concern.

E. Executive director. "Executive director" means the executive director of the MEFA designated by the commissioner of agriculture.

F. Eximbank. "Eximbank" means the Export-Import Bank of the United States.

G. Exporter. "Exporter" means a business concern, incorporated or unincorporated, which sells, leases, or proposes to sell or lease Minnesota goods or services destined for shipment, resale, or use outside the United States.

H. Financial assistance. "Financial assistance" means insurance, co-insurance, or guarantees for loans or credits extended to an exporter for pre-export credit needs, but does

not include coverage of foreign political or commercial risk.

I. MEFA. "MEFA" means the Minnesota Export Finance Authority created by Laws of Minnesota 1983, chapter 289, section 8.

J. Minnesota goods or services. "Minnesota goods or services" means goods or services manufactured, processed, or originated in Minnesota or which contain substantial Minnesota-source components, labor, or intellectual property.

K. Pre-export. "Pre-export" means that period of time between the exporter's receipt of a purchase order and the exporter's receipt of documents confirming shipment according to the terms of trade.

L. SBA. "SBA" means the United States Small Business Administration.

3 MCAR S 1.0092 Availability of financial assistance from the MEFA.

A. Purpose. Financial assistance is available from the MEFA to facilitate the pre-export credit needs of exporters where credit or loans would otherwise not be made and where there is sufficient likelihood of repayment. The MEFA may not assume foreign risks in connection with financial assistance.

B. Forms of financial assistance. The MEFA may insure, co-insure, and guarantee loans or credit extended to exporters by financial institutions.

3 MCAR S 1.0093 Content of application.

The executive director shall prepare application forms for use by exporters or lenders in seeking financial assistance. The application forms must set forth the information necessary for the determination of eligibility and must require, among other things, a description and history of the exporter, the experience of management, financial statements, income and expense projections for the export sale, a description of collateral and other security, purchase order and proposed terms of the export sale, foreign risk coverage, and a statement by the exporter or lender identifying alternative sources of

APPROVED IN THE REVISOR OF STATUTES OFFICE BY:

financing which have been pursued and the reasons that financing is unavailable through those sources. The executive director may require additional information necessary to a determination of the exporter's eligibility for financial assistance and reasonably related to the criteria for approval in 3 MCAR S 1.0096.

3 MCAR S 1.0094 Application procedure.

A. Application forms. The MEFA shall provide application forms for use by exporters or lenders seeking financial assistance. The completed application forms with all required exhibits and attachments must be submitted to the executive director.

B. Initial review by executive director.

1. Review for completeness. The executive director shall review the application for completeness and notify the applicant of any additional information required. When all required information has been received, the board, or the executive director upon delegation by the board, shall consider the application.

2. Consideration of alternative sources. If it appears to the executive director that financial assistance may be available to the applicant in whole or in part from the SBA or Eximbank or other sources, the executive director may direct the applicant to those sources. When it appears to the executive director that alternative sources have been appropriately pursued by the applicant, the board, or the executive director upon delegation by the board, shall consider the application for approval.

C. Consideration of application. The board, or the executive director upon delegation of authority from the board, shall consider the application, taking into account the purposes of Laws of Minnesota 1983, chapter 289, sections 7 and 8 and the criteria and terms of 3 MCAR SS 1.0095 and 1.0096.

D. Approval of application. If the board, or the executive director upon delegation of authority from the board, approves the application, the executive director shall notify the

applicant in writing setting forth the terms and conditions of the financial assistance approved. The executive director, together with the lender and any other private or governmental participants, shall prepare the written agreements and documents necessary to close the loan or finalize the credit, in accordance with the terms and conditions set forth in the notice of approval.

E. Denial of application. If the application is disapproved, the executive director shall notify the applicant in writing of the reasons for denial.

F. Misrepresentation by applicant. The MEFA may reject any application, may revoke any notice of approval, or may refuse to close any loan in the event that any information provided by the applicant contains a material misrepresentation or omission. Each applicant has an affirmative and continuing duty to update and correct all information provided to the MEFA or to the lender.

3 MCAR S 1.0095 General terms and conditions of financial assistance.

A. Permissible use of financial assistance. When the MEFA grants financial assistance to meet the financing needs of an exporter, the financial assistance is available from the time the exporter receives a purchase order until the exporter receives documents confirming shipment according to the terms of trade in the sales transaction. Credit needs eligible for financial assistance include costs and expenses related to the acquisition or production, financing, and shipment of the goods or services.

B. Minimum loan or credit guaranteed. The MEFA shall not provide financial assistance where the principal amount of the pre-export loan or credit needed is less than $25,000.

C. Maximum amount of financial assistance. The MEFA's net exposure for financial assistance to an exporter, including all its affiliates, may not, at any one time, exceed $250,000.

D. Extent of participation. The MEFA may participate in loan or credit guarantees and insurance to the extent necessary

and appropriate to facilitate the required financing. The MEFA may seek coparticipation in financial assistance from other private and governmental sources, including the SBA, Eximbank, Foreign Credit Insurance Association, and private insurers. In any event, the MEFA's maximum participation in loan guarantees or insurance may not exceed 90 percent of the principal amount of the loan, and the lender must remain at risk for at least ten percent of the principal amount.

E. Maturity. The maturity of a loan guaranteed or insured by the MEFA may not exceed 12 months.

F. Security. Loans must be secured by collateral of a type, amount, and value which, considered with the other criteria described in 3 MCAR S 1.0096 B., affords reasonable assurance of repayment.

G. Interest rates and fees. The lender may charge fees and a legal rate of interest on guaranteed loans, subject to the executive director's determination that the lender's fees and rate of interest are reasonable under the circumstances.

H. Fees. A guarantee fee of one to three percent of the principal balance guaranteed is payable by the lender to the MEFA. In determining the amount of the guarantee fee for a particular transaction, consideration must be given to the criteria set forth in 3 MCAR S 1.0096 B. The guarantee fee may be passed on to the exporter. The board may adjust the fee range from time to time so as to maintain adequate reserves in light of actual loss or earnings experience and to comply with any applicable treaties or law. In proposing and adopting fee range adjustments the board shall follow the procedures for amendment of rules prescribed in Minnesota Statutes, chapter 14.

I. Reporting requirements.

1. Reports by lender. The lender shall report in writing to the executive director as provided in the guarantee agreement. Reports must show the progress, repayment status, and principal balance, outstanding or undisbursed, for each loan guaranteed or insured by the MEFA.

2. Reports by exporter. The exporter shall report to the

executive director immediately upon making shipment of the goods and shall provide copies of documents evidencing shipment according to the terms of trade, such as the ocean bill of lading or air waybill. If requested by the executive director, the exporter shall submit other reports or documentation reasonably related to an assessment of the exporter's compliance with Laws of Minnesota 1983, chapter 289, sections 7 and 8, 3 MCAR SS 1.0090-1.0100, or the terms of the sale transaction, loan agreements, or the MEFA guarantee.

3 MCAR S 1.0096 Criteria for approval of financial assistance.

A. Need for financial assistance. Financial assistance will be approved by the MEFA for export credit that would not otherwise be made.

1. Exporter's resources. The MEFA shall consider whether the desired financing appears available to the applicant on reasonable terms from its own resources, such as the applicant's bank or other lender, issuing of securities, disposal of assets at a fair price, or utilization of the personal credit or resources of owners or principal shareholders of the applicant.

2. Alternative sources of assistance. The MEFA shall also consider whether the requested financial assistance appears available, in whole or in part, through other governmental sources such as the SBA or Eximbank, and the MEFA may direct the applicant to these sources or seek coparticipation from these sources as available.

B. Reasonable risk. There must be reasonable assurance, in the judgment of the board, that the credit can and will be repaid according to its terms. In making this judgment the board shall consider the following:

1. evidence of the manner, means, and security of payment by the buyer and coverage of foreign risks;

2. terms of the export sale and projected earnings from the transaction;

3. collateral and other sources of guarantee or insurance securing the loan or credit;

4. credit history and financial condition of the

applicant;

5. financial projections;

6. ability of management.

C. Eligibility of lender. The financial institution must have a continuing ability to evaluate, perform, and service the loan or credit, to make reports as required by these rules, and to collect the loan if requested by the MEFA upon default.

3 MCAR S 1.0097 Loan administration.

A. Servicing. The lender shall service the loan and receive all payments of principal and interest. In the event of default, the lender shall continue to service the loan if requested by the MEFA to do so.

B. Notification of nonpayment. If the exporter fails to make any payment of principal or interest on the due date, the lender shall immediately notify the exporter of the payments due. If the exporter fails to cure the nonpayment within 30 days, the lender shall notify the executive director.

3 MCAR S 1.0098 Quorum of the board.

A majority of the members of the board duly appointed and acting from time to time constitutes a quorum for the purpose of conducting business and exercising the powers of the MEFA, but a smaller number may adjourn from time to time until a quorum is obtained. When a quorum is in attendance, action may be taken by the board on a vote of the majority of the members present.

3 MCAR S 1.0099 Agency meetings.

A. Regular meetings. The date and place of regular meetings will be posted at the offices of the Minnesota Trade Office in St. Paul, Minnesota, at least five days prior to the meeting.

B. Special meetings. Special meetings of the board may be called by the chairman or by a quorum of the board for the purpose of transacting any business designated in the notice. Special meetings must be held at the offices of the Minnesota Trade Office in St. Paul, Minnesota, unless another place of meeting is designated in the notice. At any special meeting no business may be considered other than as designated in the

notice, unless all of the members of the board are present at the special meeting. Notices of special meetings must be posted at the offices of the Minnesota Trade Office.

3 MCAR S 1.0100 Public appearances at board meetings.

A. Applicable procedures. The procedures in B. and C. govern appearances by members of the public at meetings of the board.

B. Written request for appearance. Any person who desires to appear and address the board must submit a written request to the executive director no later than two days prior to the date of the meeting.

C. Vote of the board. The board shall consider any written requests for appearance upon the convening of the meeting. A majority vote of the board members present at the meeting is required to approve any request to address the meeting. The board may limit the time or impose other conditions on the appearance.

[REVISOR] 450

OFFICE OF THE REVISOR OF STATUTES

Proposed Rule

RD450

Agency: Department of Agriculture

Division: Planning Division

Agency Contact: Gerald Heil

Rule Numbers: 3 MCAR SS 1.0090-1.0100

Title: Proposed Rules Governing Export Financing Assistance by the Minnesota Export Financing Authority

Type of Rules: Permanent

Incorporations by Reference: None

Duplication of Statutory Language: None

Steven C. Cross
Revisor of Statutes

Craig E. Lindeke
Assistant Revisor
Phone: 296-0946
Date: November 14, 1983

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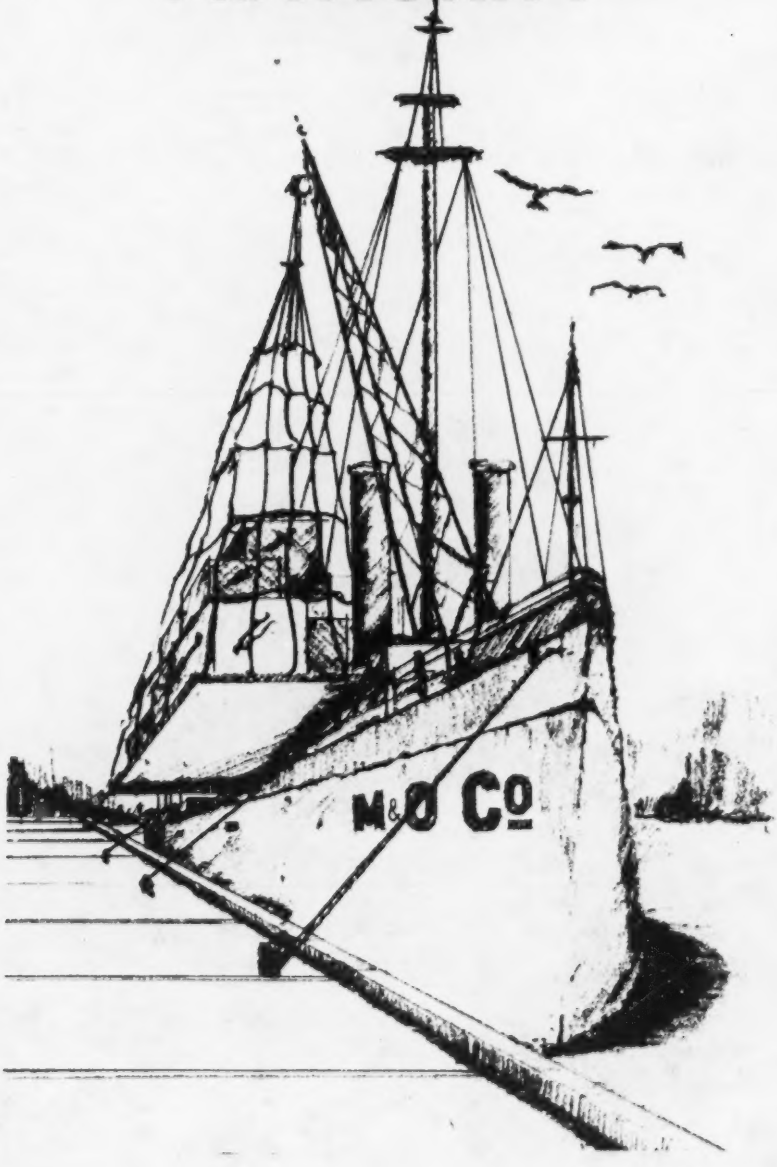
THE MINNESOTA EXPORT FINANCE AUTHORITY



**Do you have a foreign order?
But can't get a loan to fill it?
The Minnesota Export Finance Agency can help.**

What is the Minnesota Export Finance Agency?

It's a state agency that helps small and medium sized businesses with their export financing needs.

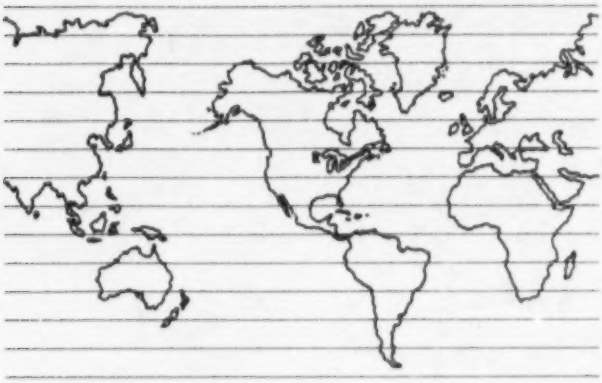
It's an agency dedicated to keeping your paperwork to a minimum and quickly getting Minnesota businesses into the growing export market.

What can it do for me?

The agency can help you get a business loan when you've been turned down by your bank.

It can guarantee up to 90 percent of bank loans from $25,000 to $250,000 for up to one year.

If you don't qualify, the agency will direct you to a financial or government agency that may be able to help.



How do I Qualify?

First, your bank must have turned down your loan application either because you've exhausted your line of credit or because your banker is uneasy about your export deal.

The product or service you're exporting must originate, must be manufactured or must be processed in Minnesota.
In most cases, your export transaction may have to be supported by a confirmed, irrevocable letter of credit or by foreign risk insurance.

The guarantee will cover the loan from the time of receipt of the order until shipment of goods or completion of services.

Is this a long, drawn out process?

No.

First of all, we don't make you wait for all the final papers. Because we don't want to hold up your application, we'll start working with you as soon as you have the preliminary information.

If we can help, we'll get you an application, talk to your banker, help you structure your letter of credit, and answer other export-related questions.

Once you have the completed application, have your bank send it to us, even if you haven't received your letter of credit.

Interested?

Contact us at 612/297-4659 or Minnesota Export Finance Agency, 90 West Plato Blvd., St. Paul, MN 55107.

Do you want to help your exporting customers who have already reached their credit limit?

Are you uneasy about providing a loan supported by an export transaction?

C A L L

MEFA

6 1 2 / 2 9 7 - 4 6 5 9

We will be happy to help you help your customers!

What's MEFA?

The Minnesota Export Finance Authority is a state agency established to help SMALL and MEDIUM-sized companies with their export financing needs.

If you have a customer who needs a working capital loan to fill an export order but has already reached his or her credit line or if you don't feel comfortable having to rely on an export transaction as the source of repayment of your loan, then CALL US.

If we can help, we will guarantee your loan up to 90%. If we cannot, we will refer you to other lending agencies which may be better equipped to serve you or your customers.

How the program works

The Minnesota Export Finance Authority will guarantee your customer's loan if:

- the loan is to provide working capital during the period from receipt of an export order to the time of shipment of goods or completion of services ("pre-export");
- the amount of the loan is between $25,000 to $250,000;
- the duration of the loan is one year or less; and
- the loan will facilitate the export of goods or services that originated or were manufactured or processed in Minnesota.

The export may have to be supported by an irrevocable letter of credit or by foreign risk Insurance.

Is this a long drawn out process?

No!

The Minnesota Export Finance Authority is dedicated to keeping paperwork to a minimum and acting quickly to help Minnesota businesses into the growing export market.

If your customer has the purchase order in hand, but hasn't received the letter of credit, don't wait. Call us!

With this preliminary information, we will determine if we can help.

If we can help, we will:

- tell you where you can pick up a loan guarantee application or we'll mail you one;
- answer your questions on how the letter of credit should be structured; and
- answer any other export related questions.

Once you have the application, gather all the information requested and return the completed application right away so that we can start working on it. (The letter of credit can follow later.)

Interested?

Contact the Minnesota Export Finance Authority at the Minnesota Trade Office, 90 West Plato Blvd., St. Paul, MN 55107 or 612/297-4659.

MINNESOTA EXPORT FINANCE AUTHORITY

Application for Loan Guarantee

(All questions must be fully answered. If question is not applicable, please so indicate. Use continuation sheets as necessary. Information submitted will be treated as confidential).

Date: _____

1. Name and address of lending institution (Applicant): _____

   _____

   Name and title of loan officer: _____ Phone # _____

2. Name and address of exporter (Borrower): _____

   _____

   Name and title of contact person: _____ Phone # _____

3. Name and address of manufacturer or producer if Borrower is an export trading company _____

   _____

   Name and title of contact person: _____ Phone # _____

4. Terms of the export loan:
   a - Amount of loan requested _____
   b - Repayment schedule _____
   c - Proposed interest rate _____
   d - Proposed fees, points and other charges including compensating balances, certificates of deposit and credit reports _____

   _____
   e - Proposed collateral _____
   f - Proposed loan disbursement date _____

5. Details of export transaction:
   a. Contract amount: _____ Indicate FOB, FAS, CIF or C&F and the point of origin, loading, shipment or destination _____
   b. Payment term _____
   c. Description of products or services to be exported including model, quantity, new or used equipment, etc. _____

   _____
   d. Description of Minnesota content _____
   e. Name and address of foreign purchaser _____

   _____

   Indicate whether public buyer or private buyer _____
   f. Description of relationship as well as past experience with purchaser _____

   _____
   g. Manner of shipment and proposed shipping date _____
   h. Proposed port of exportation _____ port of importation _____
   i. Final destination (if different from 5(c)) _____

6. Background on Borrower:
   a. Date incorporated _____
   b. Total sales last 2 years: $ _____ in 198__ & $ _____ in 198__
   c. Export sales last 2 years: $ _____ in 198__ & $ _____ in 198__
   d. Name, title and percentage of ownership of the officers: _____

   _____

   _____

   _____

   _____

(Over)

AG-00941-01
2/21/84

e. Name and address of affiliated companies (describe relationship and percentage of ownership or control):

_____

_____

f. Attachments:

1 - A statement by Borrower or by a lending institution identifying the source(s) of financing pursued and the reason(s) why the financing is not available through that source or those sources.

2 - Two years of financial statements with cash flow projections (including a statement of cost and revenue from the proposed export sale). If latest annual statement is over 60 days old, an interim statement should be included. (For newer companies, attach annual statement and/or starting balance sheet plus interim statements).

3 - Current personal statements of the principal stockholders.

4 - A description of borrower's business plan and history of activities including a summary of the management's experience in related and non-related fields.

5 - A complete list of lending institutions Borrower has dealt with the last three (3) years.

6 - A copy of the foreign Purchase Order.

7 - Copy of letter of credit attached ____ or to follow ____ or copy of FCIA policy attached ____.

8 - Others (please list) _____

7. Credit References:

a - Applicant's credit experience:

o Depository relationship since_____Types of Accounts _____

Average balances _____Description of relationship _____

_____

o Borrowing relationship since _____ Types of credit provided (line of credit or single loans; commercial installment and/or personal loan; type of collateral, etc.) _____

_____

Description of relationship _____

_____

Current credit facility (type, current loan outstanding, collateral, etc.) _____

_____

_____

Current fees, points and/or other charges _____

b - Credit or bank reports: In addition, a credit reference in the form of a Dunn & Bradstreet report, credit bureau report, trade (supplier) reference or another bank reference must also be attached. If the borrowing relationship with the Applicant is less than one (1) year old, a second bank reference on the company and on the owners must be included.

8. Analysis and recommendations: Applicant should state the reason(s) why MEFA should guarantee the loan (based on the Borrower's financial condition, track record, etc...) _____

_____

_____

_____

_____

9. Guarantee Fee: A guarantee fee of one to three percent of the principal balance guaranteed will be levied. A prepayment of $250.00 in the form of a cashier's check payable to the Minnesota Export Finance Authority must accompany this application. This guarantee fee prepayment will be refunded only if the loan guarantee application is denied.

_____

Name of Lending Institution

_____

By Title

_____

By Title

Minnesota Export Finance Authority
90 W. Plato Blvd.
St. Paul, MN 55107
612/296-4659

GUARANTY

This Agreement, by and between the Minnesota Export Finance Authority (hereafter "MEFA" and _____ (name of lender) _____ (address) _____ (hereafter "lender", witnesseth:

WHEREAS, MEFA is authorized under Laws of Minnesota 1983, chapter 289, section 8, to aid and facilitate the financing of exports from this state and to guarantee against commercial pre-export credit risks; and WHEREAS, _____ (name of borrower) (hereafter "borrower") has received an export order for Minnesota goods or services as described in lender's MEFA application dated _____ (hereafter "application") attached hereto and incorporated herein; and

WHEREAS, to facilitate borrower's performance of the aforedescribed export order, lender has agreed to extend a loan or credit to borrower (hereafter "the export loan") and;

WHEREAS, borrower has agreed to provide security for the export loan (hereafter "export loan security") as hereafter described in paragraph II; and

WHEREAS, in making the export loan to borrower, lender is relying upon MEFA's extension of its guaranty to lender with respect to the export loan,

NOW, THEREFORE, lender and MEFA enter into this guaranty agreement on the following terms:

I. TERMS OF THE EXPORT LOAN.

Lender agrees to extend to borrower the export loan on the terms described in the application.

II. EXPORT LOAN SECURITY.

Lender agrees to obtain from borrower the following security for the export loan:

1. Collateral _____
2. Assignment of proceeds of letter of credit _____
3. Guaranties _____
4. Other Security _____

III. CONDITIONS PRECEDENT.

Prior to and as conditions precedent to the effectiveness of this guaranty, lender shall certify to MEFA that lender has obtained the following:

1. A valid, binding and enforceable promissory note from borrower for repayment of the export loan in accordance with the terms described in the application.
2. Perfected security interest in all collateral described in paragraph II(1).
3. Assignment of proceeds of letter of credit, if so provided in paragraph II(2).
4. Personal or corporate guaranty agreements as described in paragraph II(3).
5. Valid, binding, and enforceable agreements with respect to any other security specified in paragraph II(4).

IV. SCOPE AND TERMS OF GUARANTY.

A. Sums Guaranteed.

MEFA guarantees ____ percent of the principal balance of the export loan disbursed and outstanding, together with interest on the guaranteed portion of the principal balance from the time of disbursement up to the due date for payment.

B. Nature of Guaranty.

MEFA guarantees payment of the guaranteed sums within 30 days after lender's demand for payment pursuant to Paragraph VI.

This guaranty shall be subject to MEFA's rules, 3 MCAR §§ 1.0090-1.0097.

C. Restriction and Limitation.

This Agreement is not a continuing guaranty, but shall apply only to the export loan described in the application.

D. Duration.

MEFA's liability under this agreement shall commence upon execution of this Agreement by all required parties and upon fulfillment of the conditions precedent set forth in Paragraph III.

MEFA's liability shall terminate when borrower effects shipment of the goods or services according to the terms of trade of the export sale and fulfills the requirements of the letter of credit if applicable, or alternatively upon payment or collection of sums guaranteed hereunder.

E. Alteration of Export Loan, Export Sale, or Letter of Credit.

Without the prior written consent of MEFA, lender shall not:

1. Make or consent to any alterations or amendments in the terms of the export loan, the terms of the export sale, or the terms of the letter of credit, if any;
2. Release or substitute any of the export loan security; or
3. Accelerate the maturity of the export loan or make demand for payment upon the borrower prior to the due date of the promissory note.

Any action by lender to alter the export loan, export sale or letter of credit contrary to this paragrah shall operate to discharge MEFA from all liability under this guaranty.

V. OBLIGATIONS OF THE LENDER.

A. Guaranty Fee.

In consideration of MEFA's extending its guaranty, lender shall pay to MEFA a one-time guaranty fee of _____ percent of the maximum principal balance guaranteed, which lender may pass on and charge to borrower.

Lender shall pay the guaranty fee to MEFA on the date of the first loan disbursement to borrower.

If lender fails to pay the guaranty fee as herein provided, MEFA shall be discharged from all liability under this guaranty.

B. Loan Administration and Servicing.

Lender shall disburse the loan to borrower within ____ days after the effective date of this guaranty agreement.

Lender shall perform, administer and service the export loan in accordance with customary and prudent commercial banking practices and in accordance with the terms of all agreements between lender and borrower related to the export loan.

Lender shall maintain and make available to MEFA upon request all documents relating to the export loan. While the export loan remains outstanding, lender shall not dispose of any such documents without the prior written consent of MEFA.

C. Security.

Lender shall obtain from borrower the export loan security described in paragraph II and shall take all necessary action to perfect the security interests.

Lender shall preserve and protect the interest of lender and MEFA in the export loan and export loan security in accordance with customary and prudent commercial banking practices.

Any failure by lender to preserve and protect the export loan security shall exonerate MEFA from liability hereunder to the extent of the loss attributable to lender's failure.

D. Interest and Lender's Fees and Charges.

Lender shall not directly or indirectly, without the prior written consent of MEFA, impose any charge on borrower in connection with the export loan except as described in the application. Lender shall not require certificates of deposit or compensating balances from the borrower, except as disclosed in the application.

E. Application of Proceeds and Collateral.

All proceeds of the export sale and the export loan security described in paragraph II which are paid to or received by lender shall be applied by lender to payment of sums due in the following order:

1. To the reasonable costs incurred in collection of the export loan, and in disposition of the export loan security pursuant to paragraph V(H), if applicable;
2. Pro-rata to the guaranteed and unguaranteed portions of:
   a. Unpaid interest accruing from the time of principal disbursement up to the due date for payment thereof, and then:
   b. The principal balance.
3. If any proceeds remain, then to interest accruing after the due date for repayment of the loan.

Lender shall not acquire any preferential security or guaranty, including rights of setoff and counterclaim, to protect the unguaranteed portion of the export loan principal, interest, or other charges.

F. Loan Status Reports.

Lender shall report in writing to MEFA the status of the export loan as follows: _____

_____

_____

G. Notice of Default or Insolvency.

For purposes of this guaranty agreement, a payment will be delinquent if not made within 30 days after the due date. While this guaranty remains in effect, lender shall give written notice to MEFA whenever any payment due from borrower becomes delinquent. Such written notice must be given within five (5) days after the payment becomes delinquent. Lender's failure to give notice within the required time period shall exonerate MEFA from all liability with respect to such delinquent payments.

In the event that lender receives knowledge or notice of borrower's insolvency, lender shall promptly notify MEFA. For this purpose, borrower will be deemed insolvent if a voluntary or involuntary petition is filed under the federal bankruptcy laws, borrower makes an assignment or other arrangement for the benefit of creditors, a receiver or trustee is appointed to manage borrower's assets, or any other event occurs with lender determines to constitute an adverse change in borrower's ability to perform the export sale or to repay the export loan.

H. Action Upon Borrower's Delinquency or Insolvency.

In the event of borrower's delinquency or insolvency, lender shall, if so requested, confer with the executive director or other designee of MEFA regarding action to be taken in servicing and collecting the export loan and pursuing the export loan security.

Upon the written request or consent of MEFA lender shall:

1. Make demand upon borrower for payment of the outstanding principal balance together with interest and all charges payable thereon; and/or

2. Proceed with due diligence to pursue all reasonable means to collect the export loan from borrower and to apply and exhaust the export loan security as necessary to effect payment of all amounts payable in connection with the export loan.

I. Assignment.

Lender shall not assign, transfer, negotiate or sell any of its rights in the export loan, borrower's promissory note, the export loan security, or this guaranty agreement, without the prior written consent of MEFA.

VI. PAYMENT BY MEFA.

If any payment of the export loan is delinquent and lender has given timely notice of the delinquency pursuant to paragraph V(H), lender may demand in writing that MEFA pay the guaranteed sums. When making such demand, lender shall send to MEFA copies of all written agreements and instruments required in connection with this guaranty.

Within 30 days of receipt of lender's written demand, MEFA shall pay to lender the guaranteed sums which remain unpaid and uncollected. Lender shall assign to MEFA without recourse borrower's promissory note and lender's interests in the export loan security and MEFA shall be subrogated to lender's rights against borrower to the extent of MEFA's payment.

MEFA's payment hereunder is subject to setoff for any damages or losses incurred by MEFA as a result of lender's breach or failure to perform in accordance with this agreement.

MEFA's payment hereunder shall not constitute a waiver of any right of MEFA arising from lender's negligence, misconduct, or violation of any term of this agreement.

VII. GUARANTEE RECORDS AND AUDITS.

Lender shall keep records of all activities, expenditures, and receipts undertaken in connection with the export loan and this guaranty. The books, records, documents, and accounting procedures and practices of lender relevant to this agreement shall be subject to examination by MEFA and the legislative auditor.

IN WITNESS WHEREOF, the parties have caused this guaranty to be duly executed intending to be bound thereby.

LENDER

By _____

Title _____

Date _____

By _____

Title _____

Date _____

As to form and execution by the ATTORNEY GENERAL:

By _____

Date _____

COMMISSIONER OF ADMINISTRATION:

By _____

(Authorized Signature)

Date _____

MINNESOTA EXPORT FINANCE AUTHORITY

By _____

Title _____

Date _____

COMMISSIONER OF FINANCE:

By _____

(Encumbrance Center authorized signature)

Date _____

Minnesota Export Finance Authority (MEFA)

Fact Sheet

MEFA was created by the 1983 Legislature to aid and facilitate the financing of exports by small and medium-sized businesses from this state.

It was felt that large international banks often cannot get involved in small export transactions and make a profit. Smaller banks often do not have enough international expertise to lend money based on an export transaction. Therefore small businesses often cannot obtain capital to produce the goods to fill their foreign orders. Thus MEFA was created to fill this pre-export financing need.

The Program

MEFA will not lend money directly to the exporters, but will provide guarantees for their working capital loans. MEFA will guarantee up to 90% of the bank loan, plus the interest on the guaranteed portion of the loan. The exporter's bank will be at risk for 10% of the principal amount of the loan, the interest on the uninsured 10%, and late interest, if any.

Amount and Maturity of the Loan

MEFA's guarantee covers the period between the time the working capital is made and the time the shipment of the goods or delivery of the services is effected. The guaranteed loans will range between $25,000 to $250,000 and will not exceed 12 months in duration.

Eligibility

Any small or medium-sized business which -

- has been refused credit by its' bank but meets MEFA's credit criteria and
- has a bona fide order for the export of goods or services originated, produced or processed in Minnesota.

Since MEFA only guarantees the pre-export risk, it will usually not require a letter of credit to back up the purchase order. However, in most cases, a letter of credit might be required by the lending institution since it may be reluctant to assume the post-export credit and political risk.

Companies which do not qualify for MEFA guarantees will be referred to other sources of financial assistance.

Fees

A guaranty fee of one to three percent will be charged based on the credit worthiness of the borrower and the duration of the guarantee.

Interest Rates

MEFA will not impose any interest rate or fee rate ceiling on the lending institution for the guaranteed loan. However, it will monitor the rates and fees being charged.

Collateral

MEFA will require the guaranteed loan to be secured by various types of collateral which must have a value, as determined by the lender and MEFA, sufficient support of the credit risk and the type of transaction involved.

(OVER)

Limitations

Because of limited resources, MEFA's guarantee is available on "first-come, first-served" basis only. For this reason, even though the guarantee can cover a period as long as 12 months, it is limited to the amount of time it takes to produce and to ship the goods. In addition MEFA can only guarantee up to an aggregate amount of $250,000 per company or group of inter-related companies at any one time. A company or group of companies may seek MEFA's guarantee as often as it wishes, as long as the total outstanding loans guaranteed by MEFA do not exceed $250,000.

How to Apply

If a company has a foreign order and its bank of account is unable or unwilling to make the loan directly, it can ask its bank to contact MEFA or it can contact MEFA directly for additional information. A company need not wait until it has the purchase order or the letter of credit before it or its bank contact MEFA since a lot of preliminary work can be done before the order or the letter of credit arrives.

FOR MORE INFORMATION: Call or write: Minnesota Export Finance Authority
90 W. Plato Blvd.
St. Paul, MN 55107
Tel. 612/297-4659

May 7, 1984

Mr. William H. Draper III
President and Chairman
Export-Import Bank of the United States
811 Vermont Avenue North West
Washington, DC 20571

Dear Mr. Draper:

I am writing on behalf of the membership of the Independent Bankers of Minnesota to express our interest in and concerns about the Export-Import Bank's proposed pilot program in the State of Minnesota.

At the outset we extend our congratulations to Eximbank for initiating a pilot program to extend its reach to small and medium sized exporters, and to include additional lending institutions in its pre and post-export guarantee programs. We are pleased that Minnesota has been selected as one of the pilot states.

As we understand the pilot program, Eximbank will delegate authority to approved private financial institutions for their pre-export working capital loan guarantee program, within certain parameters, and allow private banks and the Minnesota Export Finance Authority to obtain FCIA umbrella post-export insurance policies. We view this arrangement as a step in the right direction; however, we believe that Eximbank is overlooking the most useful agent for its programs, that agent being the Minnesota Export Finance Authority under the direction of Mr. Duc Lam.

The concerns Eximbank might have with regard to delegation of authority to a State Export Finance Agency, such as capability and experience of the Agency's staff and ability to deal with post-export transactions have been addressed fully by the Minnesota Export Finance Authority (MEFA).

During the past session of the State Legislature, the MEFA legislation was amended to allow the Authority to guarantee the post-export portion of an international business transaction. The time and dollar limits of the State's authority lie within Eximbanks proposed limitations. Minnesota is the first state to have a working, and funded pre and post-export finance guarantee authority.

The Director of MEFA, Mr. Duc Lam, has 14 years of hands-on experience in international finance; this experience was earned while he worked for The American National Bank of St. Paul and the Northwestern National Banks of St. Paul and of Minneapolis. We believe that Mr. Lam's experience in International Finance would meet any reasonable criteria set either by a private bank or government agency. As important as his knowledge and skill, is the fact that he is highly respected and has the confidence of the State's banking community.

I am confident that the small and medium sized banks in Minnesota appreciate the opportunity to work directly with Eximbank and FCIA, however, we believe they would like to have the option of working through MEFA to the same end. MEFA has the authority to provide a guarantee for the entire export transaction (pre and post;) MEFA has international expertise equal to that of larger banks in the State and exceeding that of many small and medium sized banks; and MEFA has the confidence of the Independent Bankers of Minnesota membership. We recommend that Eximbank use all the financial mechanisms available to it within the State of Minnesota and provide delegated authority to MEFA for the working capital loan guarantee and/or the FCIA portion of the Bank's pilot program.

Sincerely,

Norberg A. McCrady
Independent Bankers of Minnesota

cc: Congressman William Frenzel, Minnesota
Senator Rudy Boschwitz, Minnesota
Senator Dave Durenburger, Minnesota
Congressman Andy Ireland, Florida
Senator John Heinz, Pennsylvania
Larry R. Lindeberg, Independent Bankers of Minnesota
James A. Clark, Independent Bankers of Minnesota
J. Stephen Schmidt, Independent Bankers of Minnesota

MINNESOTA BANKERS ASSOCIATION
332 BAKER BUILDING • MINNEAPOLIS, MINNESOTA 55402
(612) 336-7851

HERBERT A. LUND, PRESIDENT
GALEN T. PATE, FIRST VICE PRESIDENT
CLINTON D. KURTZ, SECOND VICE PRESIDENT
JAMES E. JORSTAD, TREASURER
TRUMAN L. JEFFERS
WAYNE F. BERTHIAUME
JOHN S. JACKSON
MARGARET GOW

May 8, 1984

Mr. William H. Draper III
President and Chairman
Export-Import Bank of the United States
811 Vermont Avenue Northwest
Washington, D.C. 20571

Dear Mr. Draper:

I am writing on behalf of the membership of the Minnesota Bankers Association to express our interest in and concerns about the Export-Import Bank's proposed pilot program in the State of Minnesota.

At the outset we extend our congratulations to Eximbank for initiating a pilot program to extend its reach to small and medium sized exporters, and to include additional lending institutions in its pre and post-export guarantee programs. We are pleased that Minnesota has been selected as one of the pilot states.

Under the pilot program, Eximbank will delegate authority to approved private financial institutions for their pre-export working capital loan guarantee program, within certain parameters, and allow private banks and the Minnesota Export Finance Authority to obtain FCIA umbrella post-export insurance policies. We view this arrangement as a step in the right direction; however, we believe that Eximbank is overlooking the most useful agent for its programs, that agent being the Minnesota Export Finance Authority under the direction of Mr. Duc Lam.

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We recommend that Eximbank use all the financial mechanisms available to it within the State of Minnesota and provide delegated authority to MEFA for the working capital loan guarantee program and/or the FCIA portion of the Bank's pilot program.

Sincerely,

Truman L. Jeffers
Executive Vice President

TLJ:sw

cc: MBA Board of Directors

Aldin Export & Import
INTERNATIONAL MARKETING SERVICES
438 UNIVERSITY AVE. - ST. PAUL, MINN. 55103
U. S. A.

March 7, 1984

Mr. Duc Q. Lam
Minnesota Trade Office
90 West Plato Blvd.
St. Paul, MN 55107

Dear Mr. Lam:

It was my pleasure meeting with you. We discussed the possibility to have a garantee for the L/C in my company favorite at the chemical bank in New York.

During the past few weeks I have succeeded to obtain the amendments that were requested by you. As I recieved these changes it became very easy for my company to handle the transaction without any need for the garantee.

At the present time I have a very good chance to fullfill all terms in the L/C without any problem. In case any difficulties arrise, I would appreciate keeping my documents and application in the active file for the next three month.

I will never forget the superb treatment I recieved from your department. Thank you for your efforts and the great aptitude.

With my regards,

Aladin S. Hassan

(Aladin S. Hassan)

MINNESOTA TRADE OFFICE
MN Dept. of Agriculture 90 W. Plato Blvd.
St. Paul, MN 55107 612-297-4222

February 24, 1984

Mr. James E. Yonge
Director
Export Import Bank of the United States
811 Vermont Ave. N.W.
Washington, DC 20571

Dear Jim:

Thank you very much for your letter of January 26th and for the opportunity to participate in the January 17th Small Business Program discussion and the January 18th Round Table discussion on state Eximbanks. We had a very good dialogue and I am sure a lot of good ideas and suggestions will result from these meetings.

It was apparent to the panel members that Eximbank has a whole gamut of programs (directly and through FCIA) designed to assist the small exporters from the time they receive an order until the final payment is received. However, it was also apparent that these programs have not been effective because of various problems and obstacles related to the marketing, the delivery system, the slow turn-around time and the very design of some of these programs.

It is indeed difficult for Eximbank, given its staff and budget limitations, to efficiently promote a program for small businesses from Washington through a network of only 350 banks. Eximbank needs to expand its domestic bank network to include many of the remaining 14,000 U.S. banks. In addition, Eximbank should consider taking its current programs and FCIA's programs and consolidating them into a single easy and simple program for use by small businesses only. Such a program will not only be more comprehensive to the small businesses, but also to the participating banks - mainly the newly recruited banks. The simplified program will also reduce paperwork and improve the turn-around-time. The program will be very helpful to the small exporters who do not have the resources to employ financial specialists and to the participating banks because of the lower handling costs.

One of the problems identified by the panel members is the lack of financial incentives for the Exim-approved banks to finance the exports of the small businesses, because these export transactions are generally too small, and therefore unprofitable. Small exporters who are not already a customer of an approved bank and who are located some distance away from such banks, have an even tougher time finding financing for their exports.

In Minnesota, the problem is further compounded by the size of our state (about 310 miles long and 260 miles wide, the fact that only four out of the 760 local banks have an international department and are approved by Eximbank (there are also four Edge Acts in Minneapolis, however, their break-even point is even higher since they cannot recoup their cost on more profitable domestic transactions) and the fact that all four approved banks are located in the Twin Cities which is on the Southeast corner of our state.

State export finance agencies do not have the profit objectives of the commercial banks. Their main objective is to maintain or increase employment in their respective states by assisting the U.S. exporters with their financing needs. While it appears they are duplicating Eximbank's purpose, goals and efforts since they and Exim serve the same customers in the same market, in reality most state export finance programs and Eximbank's programs supplement and compliment each others. For instance, Exim can provide invaluable assistance to the state export finance agencies in terms of staff training, information on political and economic outlook of various foreign countries, credit references and financial resources through its many programs. In return, the state export finance agencies can be valuable partners of Eximbank because of their knowledge of the local market, their familiarity with the local exporters and their proximity, and therefore accessibility to the exporters. By allowing these state export finance agencies to act as Exim's local "Loan Production Offices" or as Exim's agents, Eximbank will be able to overcome the tremendous logistic problem and reach out and help companies, large and small, located in the far corners of the United States. By working with these state agencies, Exim can multiply its efforts without having to increase its staff substantially.

Since each state designed its export finance program based on the financing requirements of its own businesses, it would be almost impossible for Eximbank to design a program for each individual state. However, if Eximbank designed a program which would satisfy the needs of as many states as possible, the states can have their own export finance program and at the same time use all or parts of the Eximbank program as they see fit. For this purpose I have organized an Ad Hoc Committee to identify the needs of the exporters and of the smaller banks and came up with a proposed nationwide pilot program which William Dietrich, the Governor's Special Trade Representative, delivered to you and to Garrett Boyd on January 30th. As far as Minnesota is concerned, our needs are somewhat short of the proposed nationwide pilot program and I am pleased to enclose the Minnesota proposed pilot program for your consideration.

Mr. Dietrich, the Governor's Special Trade Representative and I will be pleased to come to Washington to answer your questions and to go over the pilot programs with you, your fellow board members and/or your staff members. Meanwhile, we would appreciate receiving your comments and reactions to these proposals at your earliest convenience.

Very truly yours,

Duc Q. Lam
Executive Director
Minnesota Export Finance Authority

DL:jl

cc: Mr. Garrett Boyd

Enclosures

P.S. I am pleased to enclose a fact sheet on our program as well as our loan guarantee application, guaranty agreement and our final rules. The rules cleared the last hurdle February 21st and we are currently working on two applications.

Proposed Pilot Program for Eximbank and the Minnesota Export Finance Authority (MEFA)

This Pilot Program is designed specifically to facilitate the delivery of Eximbank Programs to Minnesota small businesses only, and therefore will not include many of Eximbank's existing programs nor other areas of cooperation between Eximbank and MEFA.

The keys to the success of this program are:
- the design of a single simple and easy to use program.
- the delegation of authority from Exim to MEFA.
- the waiving of the risk retention by commercial banks with assets of less than one billion dollars, and
- MEFA's ability to provide quick turn-around time to the exporters.

Obviously, as a condition of Eximbanks's delegation of authority, MEFA has to meet Exim's criteria of a responsible and prudent state export finance agency with sufficient capital and with a staff adequately trained in international finance. In addition, MEFA must comply with prudent lending and guaranteeing practices as determined by Exim and MEFA and must adhere to Exim's country, commodity and fee constraints.

The Program

For the purpose of this program, small business is defined as a company or other business entity which employs 500 employees or less.

A - Pre-export financing:

- MEFA will have delegated authority from Eximbank to guarantee up to 90% of the working capital loans up to an aggregate amount outstanding of $250,000 per borrower (exporter) at any one time.
- the local bank and/or MEFA will retain the remaining 10% risk.
- the maximum length of this guarantee is six months.

B - Post-export financing:

- MEFA will have delegated authority from Eximbank to insure the commercial and political post-export risk of the above transaction or to guarantee the post-export loan derived from said transaction up to an aggregate amount outstanding of $250,000 per exporter at any one time. (The credit decision is however, based on the credit worthiness of the buyer).

- The guarantee or insurance covers 100% political risk and either 90% or 95% commercial risk with MEFA assuming the 5 or 10% commercial risk retention if the local participating bank has assets of less than one (1) billion dollars.

- Maximum length of the insurance or guarantee:

  1 - contracts of $50,000 or less, up to a maximum of 180 days.
  2 - contracts of over $50,000, up to a maximum of one (1) year.

Note:

- the maximum pre-export and post-export financing/insurance per exporter is $500,000 at any one time.
- the pre-export and post-export credit decision making process are simultaneous and take place at the beginning of the transaction.

The Pilot Program should have provision for the participating banks to discount their pre and post-export loans under Eximbank's normal discount loan rules. It should also provide an optional insurance against cancellation of orders similar the FCIA's pre-export risk coverage.

If necessary, an eligibility sunset clause of a maximum of five (5) years can be incorporated.

Maximum Authority: The maximum authority on all guarantees and insurance (both pre and post-exports) extended to MEFA by Exim is $10,000,000 at any one time.

FACT SHEET - MARKETING PROGRAM

Summary: The Export-Import Bank of the United States (Eximbank) and the Department of Commerce (DOC) have agreed to jointly market Eximbank programs to U.S. exporters, with particular emphasis on assisting small and medium sized business obtain the necessary support to finance export transactions. DOC trade finance specialists have been established in each region of the U.S. to work with Eximbank and to advise U.S. exporters on matters of trade finance. In addition, Eximbank, DOC and the respective state agencies have agreed to undertake an intensive marketing campaign in the following four area state area: Illinois, Minnesota, Wisconsin, Michigan. To support this effort, Eximbank has trained 9 DOC District representatives located in the 4 state area. A modified Foreign Credit Insurance Association (FCIA) short term insurance policy, called the FCIA "Umbrella" policy, has been approved by Eximbank's Board of Directors and will be introduced as part of the 4 state intensive marketing effort. This policy will assist small "new to export" companies obtain export credit insurance to support their overseas transactions. Selected banks in the 4 state area will also receive delegated authority to committ Eximbank's guarantee on working capital loans made to qualified borrowers. Data collected during the 4 state intensive marketing campaign will be used to structure a national program to improve government supported trade financing assistance to the exporting community, particularly small and medium sized businesses. The intensive 4 state marketing program is planned for full scale implementation this summer.

Nature of the DOC/Eximbank Relationship: DOC will provide field support to assist exporters in understanding how trade financing can be most effectively used to support export sales, and the programs the government has to assist exporters obtain the necessary trade financing. DOC will assist exporters and the participating commerical institutions in obtaining the necessary Federal program support. Eximbank will provide DOC field personnel with the necessary training, tools and field support.

Role of State Agencies: State agencies will serve the dual role of facilitator and distributor. As a facilitator, the states will be advising small business on trade financing and Federal programs, and assisting them in obtaining the necessary financing through commercial institutions. As distributors, the states will be able to directly provide "new to export" companies with FCIA short term insurance coverage against risk of non payment by foreign purchasers of their goods.

FCIA "Umbrella" Policy: This is a modification to FCIA's short term insurance policy which allows the policy holder to extend short term insurance to "new to export" companies. The advantages to exporters availing themselves of the new policy is increased accessability through a wider distribution network and relief from the administrative burdens of holding an individual policy. Eligible "New to Export" companies must have less than $2 million in annual export turnover not including exports under confirmed letter of credit or cash in advance) and cannot be a current or recent (within 2 years) holder of an FCIA insurance policy. The coverage available under the umbrella is 90% commercial risk protection, 100% political risk protection and no deductible. Eligible Umbrella policyholder in the 4 state intensive marketing campaigns area will include commercial institutions such as Banks, Export Trading Companies, Accounting firms as well as other interested firms that may be qualified. The Umbrella Policy is also available to state agencies nationwide.

Working Capital Guarantee Delegated Authority: Commercial Banks interested in participating in the program may be granted delegated authority by Eximbank. Such delegated authority will allow the eligible lending institution to commit Eximbank's guarantee up to $300,000 per working capital loan made to qualified exporters. To qualify for an Eximbank guarantee the working capital loan must meet the following criteria: (1) to be used for export related business only; (2) the lending institution would not have made the loan without Eximbank's guarantee; (3) the exporter must provide 110% collateral.

Choice of Area for Intensive Campaign: The 4 states of Minnesota, Wisconsin, Michigan and Illinois have several features which make them ideal for a marketing campaign: (1) all states approved legislation supporting active export promotion program; (2) there is a good commercial banking structure in that area; (3) FCIA has a regional office in these 4 states; (5) those 4 states represent a high percentage of U.S. exports (25%); the diversity of industries and size of businesses in the 4 states area represents a good cross section.

Duration of Marketing Campaign: The marketing will be a continuous effort on the part of DOC and Eximbank. The intensive marketing campaign in the 4 state area is expected to last 12 months, after which time sufficient structure will be in place to provide ongoing support to the exporting community in those 4 states. Sufficient data should exist within 6 to 12 months to determine the resources required and the structure necessary to conduct a nationwide marketing campaign.

Support for Exporters Outside 4 State Area: Eximbank will continue to support all U.S. exporters and improve certain aspects of current programs. The FCIA "Umbrella" policy will be available to all state agencies which apply. DOC regional trade finance specialists in each region of the country have been trained by Eximbank and will be provided with the necessary tools and field support to assist exporters in their regions. Eximbank will continue to conduct the small business seminar program in cities throughout the country.

Expected Results of Intensive Marketing Campaign: The 4 state intensive marketing campaign is expected to achieve several results: (1) significantly increase the awareness and understanding of Eximbank programs among exporters and institutions serving exporters; (2) increase the number of commercial distributors for Eximbank and FCIA programs; (3) establish a system for providing field support to exporters in obtaining FCIA and Eximbank program coverage; (4) to evaluate the effectiveness of current Eximbank programs in providing the proper type of government support to exporters.

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MINNESOTA BANKERS ASSOCIATION
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May 8, 1984

Mr. William H. Draper III
President and Chairman
Export-Import Bank of the United States
811 Vermont Avenue Northwest
Washington, D.C. 20571

Dear Mr. Draper:

I am writing on behalf of the membership of the Minnesota Bankers Association to express our interest in and concerns about the Export-Import Bank's proposed pilot program in the State of Minnesota.

At the outset we extend our congratulations to Eximbank for initiating a pilot program to extend its reach to small and medium sized exporters, and to include additional lending institutions in its pre and post-export guarantee programs. We are pleased that Minnesota has been selected as one of the pilot states.

Under the pilot program, Eximbank will delegate authority to approved private financial institutions for their pre-export working capital loan guarantee program, within certain parameters, and allow private banks and the Minnesota Export Finance Authority to obtain FCIA umbrella post-export insurance policies. We view this arrangement as a step in the right direction; however, we believe that Eximbank is overlooking the most useful agent for its programs, that agent being the Minnesota Export Finance Authority under the direction of Mr. Duc Lam.

The concerns Eximbank might have with regard to delegation of authority to a State Export Finance Agency, such as capability and experience of the Agency's staff and ability to deal with post-export transactions have been addressed fully by the Minnesota Export Finance Authority (MEFA).

During the past session of the State Legislature, the MEFA legislation was amended to allow the Authority to guarantee the post-export portion of an international business transa tion. The time and dollar limits of the State's authority lie within Eximbank's proposed limitations. Minnesota is the first state to have a working, and funded pre and post-export finance guarantee authority.

The Director of MEFA, Mr. Duc Lam, has 14 years of hands-on experience in international finance; this experience was earned while he worked for the American National Bank of St. Paul and the Northwestern National Banks of

St. Paul and of Minneapolis. We believe that Mr. Lam's experience in International Finance would meet any reasonable criteria set either by a private bank or government agency. As important as his knowledge and skill, is the fact that he is highly respected and has the confidence of the State's banking community.

I am confident that the small and medium sized banks in Minnesota appreciate the opportunity to work directly with Eximbank and FCIA, however, we believe they would like to have the option of working through MEFA to the same end. MEFA has the authority to provide a guarantee for the entire export transaction (pre and post); MEFA has international expertise equal to that of larger banks in the State and exceeding that of many small and medium sized banks; and MEFA has the confidence of the Minnesota Bankers Association.

We recommend that Eximbank use all the financial mechanisms available to it within the State of Minnesota and provide delegated authority to MEFA for the working capital loan guarantee program and/or the FCIA portion of the Bank's pilot program.

Sincerely,

Truman L. Jeffers

Truman L. Jeffers
Executive Vice President

TLJ:sw

cc: MBA Board of Directors

Senator BOSCHWITZ. Congressman Ireland, since you say that you have a time limit, I would yield to you for any questions you might have. I think we will ask Mr. Draper to respond to this testimony and bring him back. I see that he has remained, and I appreciate that.

Representative IRELAND. I would like that. I will only take a moment to say that I appreciate the thrust of what you are saying in your testimony, getting to the heart of how you are going to communicate with the small banking community. You have touched on the real hazards in this program. As I said before, I am glad the bank has gotten the program going, but unless we address the problems that you have outlined here, and certainly the possible solutions, which I would readily endorse, the program is not going to move forward. You have brought up some very meaningful points, and I commend you for it.

Mr. Chairman, I think we would accomplish quite a bit if we had a dialog with Mr. Draper on that.

Senator BOSCHWITZ. I wonder if we could ask you, Mr. Draper, to join us once again. You perhaps can sit over here. I presume that microphone is operating. Just pull it toward you to respond to Mr. Lam.

Mr. DRAPER. Yes. To respond to that question about why we are not giving delegated authority to the States, we have our hands full getting the program going in the banks. The fact that only four banks have been given delegated authority is not indicative. The program has just started. That is the reason we are out there in Minnesota, marketing, trying to get a lot more banks that will have the same delegated authority.

I have to be very honest in saying that I feel more confident that the commercial banks are the arm for receiving our delegated authority. Really, they would be more used to checking credit, knowledgeable about financial ways, having the customer base directly. So, therefore, we really are biased toward getting a very successful program going through the banks and then encouraging the States to work with the umbrella policy on insurance that will not give them delegated authority but will help them use their sales techniques and their knowledge of small businesses needing help to get them funneled into the system. So our program is to get the State agencies to really be the marketing arm.

Senator BOSCHWITZ. Mr. Lam has pointed out that Exim has delegated authority to six banks in Minnesota of the 751. Do the six include the four largest?

Mr. LAM. Yes.

Senator BOSCHWITZ. And only two use this authority with any regularity.

Mr. DRAPER. But again, it is a lack of knowledge, I think. We have just started pushing this delegated-authority program there, so you cannot fault it yet.

Representative IRELAND. These figures were as of December 31, 1980. Has anything changed in the last 4 months?

Mr. DRAPER. I cannot tell you specifically that anything radical has changed.

Representative IRELAND. We still only have two? We have had 4 months and we have not had it for the two.

Mr. DRAPER. But this marketing program is just getting geared up. I think if you ask me that question in a year, we will be able to give you pretty good answers, that is, that we then would have delegated authority being used in many banks in Minnesota, Michigan, Wisconsin, and Illinois. That is our whole objective with this marketing program. Right now, we are training the trainers——

Representative IRELAND. My thrust is not to criticize, if I may have the time——

Senator BOSCHWITZ. Please.

Representative IRELAND [continuing]. It is to find out what has been going on. Here we have a 4-month period. Are we getting any more of these banks in? If you just take the ones over $100 million, you have some 35 or almost 40 banks. This program has been underway for a while, and yet we still only have two. We are interested in how that program is doing.

Mr. DRAPER. You see, we are just initiating this delegated authority in the working capital guarantee program. This is for the working capital program that we are really pitching hard. It is the preexport activity. The banks that you are talking about have been using their expertise to check out foreign buyers in the regular commercial bank export credit guarantee program. That is a different kind of a program. So I think what we are really saying here is, the program has not started yet. We think we will be able to work with the State of Minnesota very well.

Representative IRELAND. If the program has not started, No. 1, when will it start?

Mr. DRAPER. July 1.

Representative IRELAND. How will you address this problem that the gentleman has so dramatically addressed here of contacting that many banks in that area on more than a sporadic 1- or 2-day training session. How will that be done? Is it being done now?

Mr. DRAPER. This is what I was explaining earlier. We are trying not to do it directly but to train staff from the Commerce Department who will dedicate themselves to export financing techniques. They will be very familiar with our programs and go out and meet with those bankers and spend 100 percent of their time, I hope, on this program.

Representative IRELAND. What will the people at Eximbank be doing?

Mr. DRAPER. Training the distributors of this program. We cannot be direct salesmen and contact 3,000 banks. We have to use other capabilities, including the State of Minnesota's people. We will be working with them to get them to act, in effect, as our salesmen.

The best way to look at this is: Do we have a direct sales force, or do we have a distributor system? We feel we can be most effective by having a distributor system for our programs. The distributors are agencies that are already in place. They have offices and staff out there.

Representative IRELAND. Let me ask you a further question on what the gentleman is talking about. Their processing, where they have a fine track record as he refers to it—regardless whether it gets in through a distributor system or a direct processing part, you are theoretically getting those in, you are getting all these tele-

phone calls. One of the things that I think is alluded to here is the application. Doing the legislation that had to do with small business setaside, there was considerable talk of, No. 1, the application and its complexity and such, and No. 2, how it was handled. Have there been any steps to improve that?

Mr. DRAPER. We have tried to simplify it as much as we can. Essentially, there are not complex systems in place today to get: First, a working capital guarantee; second, insurance; or third, a medium-term loan or guarantee. The working capital program, which is the newest program and the one we are really concentrating on in this four-State area, works through the banks. We guarantee the banks.

Representative IRELAND. Has the application been changed?

Mr. DRAPER. I do not know. We should really separate our conversations here. This pilot program is heavily oriented toward getting the banks familiar with the preexport working capital guarantee program. We have not had any application forms for that program up to this point.

Representative IRELAND. Do we have one now?

Mr. DRAPER. No. We are working up one, which will be ready on July 1, but I cannot hand it to you now. It will be simple. But the key thing is that each commercial bank is an operator in itself. It knows how to keep score on the raw materials and inventory as collateral. It has to have a certain amount of collateral on these programs in order to put them into effect. Our guarantee is very straightforward.

Just to make sure you do understand, we have no complicated application form. It is going to be simple, and I will be happy to send it up to you to see.

Senator BOSCHWITZ. I understand, Mr. Lam, that Mr. Draper would feel a little easier or would have a preference in dealing with banks. They are a bank, in a sense. So they are more at ease with them than they are with you as a State agency. I presume not everybody in your agency has 14 years of banking experience. It is not clear to me—you talk here about Eximbank delegating authority to your agency for the working capital loan guarantee program. Does that mean that you want to act as an intermediary? Does that mean that you want to have authority to make these guarantees? My question is: To what extent are you asking them to delegate their authority; or are you saying that you could act as a facilitator, bringing it to the Bank's attention and to the attention of the 750-odd banks of Minnesota? Would you please clarify that?

Mr. LAM. Yes. Thank you, Mr. Chairman. Minnesota had sent a proposed pilot program to Eximbank back in February. The proposed pilot program that we sent to Eximbank is very similar to the one that Eximbank is coming out with starting July 1. What we are asking Eximbank to do is to allow us to be an agent of Eximbank, having the delegated authority from Eximbank—more or less, Mr. Draper, your 345th employee and salesman out in Minnesota.

Just restricted to our proposal was $250,000 maximum.

Senator BOSCHWITZ. That is per transaction?

Mr. LAM. Per customer. Eximbank's proposal is $300,000. So our request was well within Eximbank's pilot program.

Senator BOSCHWITZ. You would be able to commit the Exim?

Mr. LAM. Right.

Senator BOSCHWITZ. Are you willing to do that?

Mr. DRAPER. No, that is what we are not willing to do. We want to limit that to commercial banks, for understandable reasons. They have the systems in place, and they know their customers. They will be better on credit checks than a State agency.

Mr. LAM. The response to that, Mr. Draper, is that we feel we have the expertise inhouse. We know much more about the international than many of the banks you will be working with. The other response is that we are willing to take a portion of the risk ourselves, the State is.

Senator BOSCHWITZ. What is the proportion of the risk?

Mr. LAM. On the preexport side, we can take as large of a percentage as Eximbank feels is necessary. We want to prove that we will not just plainly rubberstamp all the applications that come through. On the postexport side, if we do the FCIA guarantee program, we are limited to 10 percent of the transaction maximum. That is constrained by our legislation.

Senator BOSCHWITZ. However, you are willing to take a portion of the risks. It is not clear to me, and I do not have a recollection, does the bank take a portion of the risk under this program?

Mr. LAM. The local banks?

Senator BOSCHWITZ. You say in the earlier part of your testimony, "Small banks will not accept risks that are in any way related to foreign risk, even for only 10 percent."

Mr. LAM. That is correct.

Senator BOSCHWITZ. That means that in the preexport portion of the program, the bank takes 10 percent of the risk?

Mr. LAM. Yes.

Senator BOSCHWITZ. Are you saying that your agency will take a higher portion of the risk than that?

Mr. LAM. We are willing to take that 10 percent of the risk that the local bank does not want to take, as well as higher.

Senator BOSCHWITZ. In other words, between yourselves and Eximbank, the bank will be risk free?

Mr. LAM. That is correct.

Senator BOSCHWITZ. Does that have any impact on your thoughts, Mr. Draper? In open hearing, perhaps it is unfair to expect an answer, but are you familiar with the approach that the Minnesota agency has taken?

Mr. DRAPER. No, I am not that familiar with it. I would like to learn more about it. My feeling is that we cannot just isolate out and give Minnesota some kind of delegated authority without giving every State in the Union delegated authority. They might not have the experience Mr. Lam has.

Senator BOSCHWITZ. Perhaps, rather than try to discuss or resolve the merits here in an open hearing, which is very difficult to do, I would respectfully request that you perhaps get together with Mr. Lam—and he will come to wherever you are, I presume—to discuss this. There are such things as pilot programs, and that is not necessary by giving the State of Minnesota certain authority. This is an extraordinary agency that the State of Minnesota has. Just as you are selecting out four States, so perhaps one of those

four can be selected that has an agency of this type that can perhaps act as an agent. Maybe there are some ways of defining the agency, and I leave that to the good offices of you, Mr. Lam, and you, Mr. Draper, both of whom profess to have an interest in expanding the small business exports.

I very much agree with the final statement in your testimony that small businesses generate so much of the new employment. They are more imaginative, more flexible, and much more.

Mr. DRAPER. I would like to say, though, that we would encourage you to work with the banks in your area. If there are small banks that do not want to take the 10 percent risk and you want to take it for them, that may be between you and them, if you see that as a system.

Senator BOSCHWITZ. Well, I respectfully request that you do arrange to get together with Mr. Lam.

Mr. DRAPER. We will be happy to do that.

Senator BOSCHWITZ. Another possible solution would be for Exim or FCIA to establish a list of qualified foreign buyers or qualified foreign banks that use irrevocable lines of credit that U.S. banks or the State could use to commit insurance under the policy. So that, too, is a possibility.

I thank you for a rather unusual approach. I do not want to create a confrontational situation. I know, Mr. Draper and Mr. Lam, you will understand that Senators are stretched a little thin sometimes. Witnesses and staff and others often have a more in-depth understanding of what the issues are than we. So if I can bring the parties together and use my offices for that purpose, we may have accomplished something.

We are going to continue with Mr. Harrison at this point. You are welcome to stay, Mr. Draper, and make what comments you wish.

Mr. DRAPER. All right.

STATEMENT OF GORDON HARRISON, EXECUTIVE DIRECTOR, WORLD TECHNOLOGY CENTER, ATLANTA, GA, AND TALLAHASSEE, FL

Mr. HARRISON. Mr. Chairman, my name is Gordon Harrison. I am executive director of the World Technology Center, based in Atlanta, GA, and Tallahassee, FL. The center is a private nonprofit corporation, which provides technical training services for exporting businesses. I appreciate the opportunity to testify as you review implementation of the Eximbank's small business set-aside program. I am sorry Mr. Ireland had to leave. I especially wanted to express appreciation for his help in the implementation of the World Technology Center, as well as Senator Mack Mattingly of Georgia.

I would like to begin by expressing my feeling that the small business set-aside program is an extremely important step toward targeting our limited governmental export promotion resources to the sector of our economy with the greatest untapped export potential—small business. I believe that the set-aside is tangible evidence that the Congress recognizes the viability of the small business in the international market.

Like many of the witnesses, including Mr. Draper who will testify today, I also think that the most pressing problem associated with implementation of the set-aside is the development of an aggressive outreach program to identify potential small business exporters.

I am not appearing today as any sort of expert on the set-aside program, but rather because the World Technology Center is currently developing a small business outreach program which should complement the efforts of the Eximbank and the Small Business Administration and may in fact provide direct assistance in marketing the set-aside throughout the southeastern United States, at no cost to the Eximbank or the SBA. I also believe that the center's proposed outreach program may provide the subcommittee with some ideas on how private-sector resources may be utilized to increase the effectiveness of Government export efforts.

The basic impetus for the World Technology Center is the recognition that technical training needs constitute a critical but previously ignored impediment to exporting, particularly among small- and medium-sized businesses. During the past 2 years, we have conducted surveys in Georgia and have found that there are three major problems to small business exporting. The first is financing, the second is unfamiliarity with foreign environments, and the third is technical support. We were surprised and astonished at the number of small business executives who contended that the inability to get their products properly installed, maintained, and repaired in the foreign environment was a true impediment to their ability to export.

To put the problem simply, small manufacturing firms will not initiate or expand export operations unless they are assured that their products can be properly installed, maintained, and repaired overseas. A wealth of resources exist among academic institutions and corporate training organizations to address technical training needs in a foreign environment: Engineers, marketing specialists, experts on the cultural and business climate of the target market, and so on. But smaller businesses have no practical means for identifying, much less assembling, the needed talent.

The World Technology Center plans to serve as the missing link between smaller businesses with technical training needs and preexisting technical training resources. To simplify the process a bit, the center's basic operation will include five steps. First, the center will conduct an aggressive outreach program utilizing its strong contacts in the southeastern business, academic, and political community to identify smaller manufacturing firms wanting to begin or expand export operations.

Second, the center will create a data base network of technical training resources, including experts on every available foreign market and technical field. Third, training teams will be pulled together on a contract basis, tailored to an individual company or group of companies' target market. Fourth, the center will design specialized training packages, including some generally applicable in-house on basic elements of exporting. Finally, we will seek and disseminate information on all other services provided by Federal and State government and private organizations in the hope of providing a one-stop shop for export assistance for our clients.

In particular, we want to ensure that every business we contact, whether or not they utilize the center's resources, is fully aware of the services provided by Eximbank, along with trade lead information developed by the Department of Commerce and trade fair and trade mission activities often conducted by State trade agencies. We also hope to give Federal officials access to our unique technical training data base so that training can be plugged into our package of export-related services provided.

The World Technology Center has been extremely fortunate to have received financial support and technical assistance from the Governor, State agencies, board of regents, private businesses, in Georgia and Florida. Some $250,000 has been spent on establishing the organization and in putting together the framework for specific training and program modules. Additionally, thousands of man-hours have been provided in-kind by academic institutions, corporate training organizations, small businesses, law firms, accounting firms, banks, and other public and private organizations. In particular, the Georgia Institute of Technology, the World Congress Institute of the Georgia State University, Southern Technical Institute, the University of Florida, the University of Miami, and Emory University are but a few of those vitally involved in developing and implementing the center's plan of operations.

In addition to forging a partnership among State and local governments, corporate and academic institutions, we also hope to bring in a necessary fourth partner, the Federal Government. The center currently has an application pending before the Economic Development Administration to help begin our outreach program, our interstate electronic data bases, and the details of our training programs. Personally, we have been astonished by the vast private and public resources available in the Southeast for addressing the needs of potential small business exporters.

The key, which I believe has been largely overlooked, is coordinating these resources around a common plan of action. I believe that Eximbank and SBA might well direct their limited resources toward providing that coordinative role in implementing the set aside program.

I would also suggest that the subcommittee take into consideration the overall context of small business needs in implementing the Exim set-aside. Export and preexport financing are obviously a critical element in mobilizing our small business export potential, especially in view of our trade competitors' credit subsidy practice. But what we should ultimately aim toward is a system of export assistance that addresses all the major impediments: Finance, technical training, market intelligence, distribution networks, and so on. The World Technology Center offers to do its part to work toward this goal.

Again, Mr. Chairman, thank you for this opportunity to testify. I will be happy to answer any questions. For your information, I have provided staff with copies of our grant application to the EDA, as well as copies of our management plan which describes the full range of the center's activities. I would also like to ask that a copy of a member of our board of trustees, who is also a member of the small and minority business ISAC in the Department of

Commerce, he is sending a copy of his testimony, which I would like included in the record, if possible.[1]

Senator BOSCHWITZ. Fine. We will be happy to include that in the record. If you will send it directly to the Small Business Committee, it will be made part of the record.

[Material follows:]

[1] Information not available at time of going to press.

TESTIMONY OF GORDON A. HARRISON
BEFORE THE SUBCOMMITTEE ON EXPORT PROMOTION
AND MARKET DEVELOPMENT
U.S. SENATE
COMMITTEE ON SMALL BUSINESS
MAY 10, 1984

Mr. Chairman and members of the Subcommittee...my name is Gordon Harrison. I am Executive Director of the World Technology Center, based in Atlanta, Georgia. The Center is a non-profit corporation which provides technical training services for exporting businesses. I appreciate this opportunity to testify as you review implementation of the Eximbank's small business set-aside program. I'd like to begin by expressing my feeling that the small business set-aside program is an extremely important step towards targeting our limited governmental export promotion resources to the sector of our economy with the greatest untapped export potential. I believe that the set-aside is tangible evidence that the Congress recognizes the viability of the small business in the international market. Like most of the witnesses who will testify today, I also think that the most pressing problem associated with implementation of the set-aside is the development of an aggressive outreach program to identify potential small business exporters.

I am not appearing today as any sort of expert on the set-aside program...but rather because the World Technology Center is currently developing a small business outreach program which should complement the efforts of the Eximbank and the Small Business Administration... and may in fact provide direct assistance in "marketing" the set-aside throughout the southeastern states, at no cost to the Eximbank or SBA. I also believe that the Center's proposed outreach program may provide the Subcommittee with some ideas on how private sector resources can be utilized to increase the effectiveness of government export efforts.

The basic impetus for the World Technology Center is the recognition that technical training needs constitute a critical but previously ignored impediment to exporting, particularly among small and medium-sized businesses. To put the problem simply, smaller

manufacturing firms will not initiate or expand export operations unless they are assured that their products can be properly installed, maintained and repaired overseas. A wealth of resources exist among academic institutions and corporate training organizations to address technical training needs in a foreign environment...engineers, marketing specialists, experts on the cultural and business climate of the target market, and so on...but smaller businesses have no practical means for identifying, much less assembling, the needed talent.

The World Technology Center plans to serve as the "missing link" between smaller businesses with technical training needs and pre-existing technical training resources. To simplify the process a bit, the Center's basic operations will include five steps. First the Center will conduct an aggressive outreach program, utilizing its strong contacts in the southeastern business, academic and political community to identify smaller manufacturing firms wanting to begin or expand export operations, but which have technical training needs. Second, the Center will create a data base network of technical training resources, including experts on every available foreign market and technical field. Third, training teams will be pulled together on a contract basis, tailored to an individual company or group of companies' target market. Fourth, the Center will design specialized training packages, including some generally applicable in-house training on basic elements of exporting. Finally, we will seek and disseminate information on all other services provided by federal and state agencies and private organizations, in hopes of providing a one-stop shop for export assistance for our clients. In particular, we want to ensure that every business we contact, whether or not they utilize the Center's resources, is fully aware of the services provided by Eximbank, along with trade lead information developed by the Commerce Department, and trade fair and trade mission activities often conducted by state trade agencies. We also hope to give federal officials access to our unique technical training data base, so that training can be plugged into the package of export-related services they provide.

Testimony of Gordon A. Harrison

The Center has been extremely fortunate to have received financial support and technical assistance from the Governors, state agencies, Boards of Regents and private businesses in Florida and Georgia. Some $250,000 has been spent on establishing the organization and in putting together the framework for specific training program modules. Additionally, thousands of man-hours have been provided in-kind by academic institutions, corporate training organizations, small businesses, law firms, accounting firms, and other public and private organizations. In particular, the Georgia Institute of Technology, the World Congress Institute of Georgia State University, Southern Technical Institute, the University of Florida, the University of Miami and Emory University are but a few of those vitally involved in developing the Center's plan of operations.

In addition to forging a partnership among state and local governments and corporate and academic organizations, we also hope to bring in a necessary fourth partner...the federal government. The Center has a grant application pending before the Economic Development Administration, to help begin our outreach program, our interstate electronic data bases, and the details of our training programs.

Personally, I have been astonished by the vast public and private resources available in the southeast for addressing the needs of potential small business exporters. The key, which I believe has been largely overlooked, is coordinating these resources around a common plan of action, and I believe that Eximbank and SBA might well direct their limited resources towards providing that coordinating role in implementing the set-aside program..

I would also suggest that the Subcommittee take into consideration the overall context of small business needs, in implementing the Eximbank set-aside program. Export and pre-export financing are obviously a critical element in mobilizing our small business export potential, especially in view of our trade competitors' credit subsidy practices. But what we should ultimately aim towards is a system of export assistance that addresses all the major impediments--finance, technical training, market intelligence, distribution networks, and so on. The World Technology Center offers to do its part to work towards

this goal.

Mr. Chairman, I would like to conclude my testimony by mentioning a few of the outstanding individuals who have been instrumental in the design and implementation of the World Technology Center. First, we have been fortunate to have received the assistance of Congressman Andy Ireland, and Senator Mack Mattingly, and their staffs, who have contributed a great deal of time with the EDA grant pending before the Department of Commerce. Also, Senator Sam Nunn, Congressman Doug Barnard from Georgia's 10th District and Congressman Buddy Darden from the 7th District have been closely involved in the project.

Our Advisory Board consists of internationally known leaders in government, business and academia. These include former Ambassador to Australia Philip Alston, Jr.; Dr. Kenneth Black, Dean of the College of Business at Georgia State University; former Georgia Governor George Busbee, and currently a member of the President's Export Council; Mr. James Edwards, Managing Partner of Arthur Andersen & Company; Mr. Thomas Faught, Jr., President and CEO of Dravo Corporation from Pittsburgh; Admiral Bobby Inman, President and CEO of the Microelectronics and Computer Technology Corporation; Mr. David MacDonald, former Deputy U.S. Trade Representative and currently a Partner in Baker and MacKenzie law firm, in Washington, D.C.; and Mr. Guy Millner, President and Chairman of the Board of Norrell Corporation, in Atlanta.

Our Board of Trustees consists of senior corporate and academic leaders who are well known both in the southeast, nationally and internationally. These include Mr. Richard Harden, Chairman of the Trustees and a Manager of Deloitte, Haskins and Sells accounting firm; Dr. Stephen Cheshier, President of Southern Technical Institute; Dr. James Crupi, Managing Director of the Georgia World Congress Institute; Mr. L. Garry Smith, President of L. Garry Smith and Assoc. in Tampa and Tallahassee; Mr. R. Travis Storey, Manager of the Closely Held Business Division of Arthur Andersen & Company; and Mr. Everett Wilcox, Partner in the international division of Alston & Bird law firm.

Finally, I want to mention the efforts of leaders in Georgia and Florida who have contributed to the World Technology Center. In Georgia, Governor Joe Frank Harris and his Special Assistant Mr. Edwin Kilgore, Budget Director Clark Stevens and Chancellor Vernon Crawford have been key to the development of the project. In Florida, Governor Bob Graham, Lt. Governor Wayne Mixson, and his Deputy Ms. Mel MacGuire, Chancellor Barbara Newell, Vice-Chancellor George Bedell, and Dr. Hank Hector, Director of Academic Planning for the University

System of Florida, and Dr. Bob Bryan of the University of Florida have provided the impetus for the Florida organization.

These individuals and numerous others have devoted countless hours to developing the WTC as a regional organization, perhaps the first of its kind in the country. We are very proud to have people of their talents and abilities participating in this major economic development and trade initiative.

Again, Mr. Chairman, thank you for this opportunity to testify. I will be happy to answer any questions you may have. For your information, I have provided copies to the staff of our grant application to the Department of Commerce and of our Management Plan, which describes the full range of the Center's activities.

WORLD TECHNOLOGY CENTER

P.O. Box 8090 □ Atlanta, Georgia □ 30306 □ (404) 980-2000/ 658-2950

ADVISORY BOARD
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Everett Wilcox

DIRECTOR
Gordon Harrison

May 10, 1984

The Honorable Rudy Boschwitz, Chairman
Export Promotion and Market
Development Subcommittee
U.S. Senate Small Business Committee
Room 428A Russell Senate Office Building
Washington, D.C.

Dear Senator:

On behalf of the Advisory Board and The Board of Trustees of the World Technology Center, I want to thank you for the opportunity to testify before your Subcommittee this morning. The supporters and participants of the World Technology Center are very excited about the potential for the Eximbank's small business set-aside. We are also enthusiastic over the possibility of providing complementary services in conjunction with Eximbank and the Small Business Administration.

Enclosed in this notebook are copies of the Management Plan of the World Technology Center and a grant application currently pending before the Economic Development Administration. I would be pleased to discuss these documents or other aspects of the Center with you or your staff beyond the scope of the hearings today if you want.

Again, I appreciate the invitation to appear before the Subcommittee on Export Promotion and Market Development.

With kindest regards, I am

Sincerely,

Gordon Harrison

WORLD TECHNOLOGY CENTER

PREAPPLICATION PROPOSAL FOR EDA NATIONAL TECHNICAL ASSISTANCE PROJECT GRANT, FY 1984

WORLD TECHNOLOGY CENTER

P.O. Box 8090 □ Atlanta, Georgia □ 30306 □ (404) 953-4474 / 658-2950

ADVISORY BOARD

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DIRECTOR

February 28, 1984

Ms. Beverly Milkman, Director
Office of Planning, Technical
Assistance and Evaluation
Economic Development Administration
Room 7866
Washington, D.C. 20230

Dear Ms. Milkman:

On behalf of the Advisory Board and the Board of Trustees of the World Technology Center (WTC), I am pleased to submit this preliminary application for a National Technical Assistance Project grant during the first funding cycle for fiscal year 1984. I have also attached a copy of the WTC Management Plan which may prove useful in answering questions about the full range of the Center's projected activities. As you may note from the Plan, the WTC has the capability to offer training services to a wide variety of businesses, as well as developing nations and other training organizations. This application requests funding for programs and models targeted to assist small and medium-sized businesses.

The specific projects for which EDA funding is being requested have been under development for about 18 months. This proposal enjoys the full support of Georgia Governor Joe Frank Harris, Florida Governor Bob Graham and a variety of academic institutions, intrastate training consortia and corporations in both states. We are confident that the WTC's technical training program will mobilize an array of economic development resources in Georgia and Florida, and eventually throughout the southeastern region. Since the WTC's approach to small business international trade development is entirely new and unique, it should also provide a model for successful utilization in other regions of the country.

Aside from the projects described in this preliminary application, the WTC is planning to conduct extensive research on systems for disseminating technical information to potential exporters and on small business international marketing needs. As I discussed with you and

with Richard Hage in Washington last week, these additional activities may be appropriate for funding under EDA's fiscal year 1984 Research Grants. I hope we can discuss this possibility further prior to the March 31 deadline for Research Grant applications.

Please do not hesitate to contact me if you need additional information to determine the WTC's eligibility for a National Technical Assistance Project Grant. We are prepared to submit formal application materials, along with other documents certifying the uniqueness and feasibility of our proposal, and the broad support we have from the economic development community in Georgia and Florida.

With kindest regards, I am,

Sincerely,

Gordon Harrison
Executive Director

Attachment

WORLD TECHNOLOGY CENTER

Pre-application Proposal for EDA
National Technical Assistance
Project Grant, FY 1984

Summary of Proposal--The World Technology Center seeks EDA assistance in developing specialized training packages designed to overcome technical impediments to sustained export sales by small and medium-sized businesses. These training packages will combine limited in-house services with contractual services made available through an extensive network among academic institutions and corporate training organizations throughout Georgia and Florida. By developing an outreach program to market technical training programs, the WTC will also be in a position to promote broad dissemination of information on export related services offered by federal and state governments and private economic development organizations.

Since technical training is a pervasive but much-ignored element of small business exporting, implementation of this proposal will promote an array of economic development and technical innovation objectives. If the WTC succeeds in stimulating significant new small business export sales, it can serve as a model for similar efforts in other areas of the country to mobilize fragmented technical training resources into highly targeted training networks.

Description of Applicant -- The World Technology Center is a private non-profit corporation and has applied for exemption from U.S. taxes under Section 501 (c)(3) of the Internal Revenue Code. A formal Board of advisors and board of Trustees oversees the activities of the Executive Director and participating organizations. The WTC is currently headquartered in Atlanta, Georgia. Additional facilities will soon be established in Florida. Among other initiatives the WTC is designed to serve as an "umbrella" organization for a partnership among federal, state, and local governments, academic institutions, corporate training organizations, and

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private-sector economic development interests. During program implementation its physical facilities and staff will be limited to in-house operations necessary for the effective delivery of specialized technical training packages.

The WTC is currently financed and supported by a combination of state and local government and private resources.

Origins and Concept of Proposal -- Over the course of the last year-and-a-half, the WTC staff has conducted interviews with small business executives throughout Georgia, and has engaged in ongoing, detailed discussions with both individual and institutional technical training experts. The objective of these inquiries was to determine the extent to which unmet technical training needs constitute a significant practical impediment to exporting by small and medium-sized businesses.

To a surprising degree, a consensus emerged among both business executives and the technical training community, that training needs often ranked as high as financial needs and unfamiliarity with foreign business climates, as an obstacle to exporting by smaller businesses. But while a variety of public and private organizations have sought to assist small businesses in obtaining export and pre-export financing, to develop overseas trade leads and to understand foreign business climates, no sustained, coordinated effort has yet been undertaken to address technical training needs.

The fundamental problem is that for most companies, development of reliable overseas markets presupposes that ability to ensure proper installation, maintenance, and repair of the exported product, or of equipment necessary for its delivery or use. For a small business executive with limited contacts and experience in the target market, this inability to guarantee ultimate quality control over his own product acts as a very tangible disincentive to sustained international operations, especially when compared to the safe and familiar alternative of relying on domestic sales. Unless the business in question has already made a permanent commitment to full-scale overseas operations, it is unlikely to have the

resources to develop an in-house training program tailored to each target market. Furthermore, while the business might well be able to afford contracted training services, it has no means for identifying and assembling experts familiar with the business, language, cultural and social aspects of the target market, and with the technical needs associated with its product-line, within a reasonable time-frame. As a result of this technical training "gap", many companies occasionally dabble in foreign markets when domestic sales justify the perceived risk, but never make the long-term commitment to exporting.

On the other side of the technical training gap, few individual academic institutions and corporate training organizations employ the full range of training experts needed to serve a specific small company's needs. Most training organizations have no fully developed "outreach" program to identify potential small business clients, and in any event cannot assemble training teams at one time and one place among themselves.

The basic concept of the present proposal is to fill the technical training gap by: (1) creating an outreach program to identify small and medium-sized businesses for which technical training needs constitute a significant impediment to initial or expanded export sales; (2) creating a network of technical training resources in Georgia and Florida and adjacent states including experts on every available foreign market and technical field; (3) pulling together from this network training teams tailored to an individual company's (or group of companies') target market, product line, and scope of projected overseas activities; (4) designing specialized one-stop training packages, including some generally-applicable in-house training on basic aspects of exporting; and (5) providing additional one-stop help by making information available on technical assistance, trade leads, and other programs and

services offered by federal and state governments and private-sector economic development organizations.

While the major thrust of the proposal is to assist companies with limited (if any) experience in exporting, the same approach could on occasion be utilized to service companies with fully-developed international operations, which are experiencing unanticipated training needs beyond the capacity of their in-house resources.

Impact on Employment -- Both Georgia and Florida (and adjoining southeastern states) contain numerous urban and rural areas plagued by chronic conditions of unemployment and underemployment. Both state governments have on numerous occasions identified new and expanded export sales, especially by small and medium-sized businesses, as among the most promising avenues for revitalizing economies and communities in chronically distressed areas.

Through its outreach program, the WTC will seek to identify potential exporters, and actual exporters which could expand overseas sales, throughout both urban and rural areas. In addition, by utilizing on-site training resources in institutions ranging from large corporate organizations to local vocational-technical schools, the WTC will provide the most cost-effective and convenient fit between needs and services.

Contribution to Productivity Enhancement and Technical Innovation -- The proposal will obviously improve the productivity of those companies which the WTC will assist in creating or expanding export sales. The productivity of the academic and corporate training communities will also be improved through constant refinement of training techniques in specific applications and expanded training bases.

The development of a training resource network should greatly contribute to significant new technical innovations. During the first six months of this proposal's operations, a

data base will be assembled linking for the first time five to ten thousand technicians in Georgia and Florida and adjacent states, classified by disciplines important to training businesses in exporting their goods and services. Communications among pre-existing but disparate training networks, and practical experience through specialized training teams, should lead to valuable innovations in technical training methods.

Contribution to Minority Business Development -- The WTC has made a special effort to involve minority business executives in the planning and development of this proposal. Once the project is operational, a technical advisory committee, attached to the WTC Board of Trustees, will be formed to help develop specific methods for marketing WTC's services to minority-owned businesses.

In addition, the WTC will work to establish links between its technical resource data banks and the unusually large number of HBCUs (historically black colleges and universities) in Georgia and Florida.

Model for National Application -- During the initial plannning stage for this proposal, the WTC staff determined that no similar effort had been undertaken anywhere in the United States. On the other hand, the same unmet needs and uncoordinated technical training resources exist in every region of the country. This proposal can clearly be treated as a southeastern regional pilot project which, if successful, could be duplicated elsewhere with appropriate local variations and refinements.

Funding Request -- The WTC anticipates requesting $400,000 in funding through EDA's National Technical Assistance Project grants for FY 1984, to be applied to operations in both Georgia and Florida. Public and private institutions have already contributed approximately $200,000 in cash and in-kind services towards this proposal, satisfying the 25% match requirement.

The following is a breakdown of the specific projects for which EDA funding is requested, with a brief description of each.

Method for Performance of Proposal -- The basis for the delivery of sevices is a system formulated by training experts from corporate and academic institutions. Individual consultations with these individuals as well as group sessions were used to formulate the system. The following narrative describes the methodology for the provision of information and training to the new-to-export company, the potential exporter or currently exporting companies needing assistance to expand their penetration of international markets.

Two hurdles must be overcome in entering the international marketplace. First, company executives must understand the business and cultural environment of the targeted overseas market. For this need, the WTC will develop short, country specific courses, provided in-house for broadening executives' understanding of the market. Issues such as language, cultural and social mores, and foreign business practices will be discussed. Second, the executives need to understand the basic problems involved in installing, maintaining and servicing products in overseas markets. Again, short courses, with the executive in mind, will be periodically offered to provide basic information on some of the problems in operating in a foreign country from a technical installation and maintenance perspective. Additionally, the courses will provide information on the various services offered by the WTC and by affiliated programs such as are offered by government agencies.

Once the executive is familiar with the components of adequately maintaining a product in a targeted overseas market, the company will enter into an agreement with the WTC for a customized training package and an action plan for training in the targeted overseas market. Specifically, a six course program model will be applied to provide for the installation, servicing and maintenance of the product once exported.

The first course program would allow the WTC expert to learn the mechanics of the manufactured product. The second program would allow the WTC instructor to develop training programs for imparting the knowledge about the product to the training teams or individuals conducting the training. The third program would be a train-the-trainer program, where the foreign technical trainer may come to the U.S. (or vice-versa) to learn about the product. The fourth component would be a course developed to enable the trainer to impart his knowledge to technicians. The two final components in the program models would be the capability to evaluate the training and to correct weaknesses in the training model. The cost of these programs would be competitive with market prices and in many cases lower because of the often restrictive overhead charges by many academic institutions and corporate training organizations.

Underpinning all of these program components will be the business outreach efforts. Essentially, the outreach component will be the marketing arm of the WTC, however the mechanisms for promotion will involve far-reaching networks in order to reach small and medium-sized businesses. The outreach program will identify businesses, initially throughout Georgia and Florida, which are currently exporting with little or no success or which have been successful in domestic sales and who have good potential for entering the international marketplace. A third target will be companies seeking to expand their current participation in international trade. In addition, it is anticipated that components of the WTC's technical training resource network will be a constant source of information to identify potential clients of the WTC which could be serviced by specialized WTC training teams.

Utilization and Enhancement of Economic Development Community -- The touchstone of this entire proposal is to establish the WTC as a catalyst for pre-existing but uncoordinated economic development resources, especially among

academic institutions and corporate training organizations. Indeed, the proposal should considerably augment the economic development community by bringing to bear the expertise of approximately five to ten thousand trainers in Florida and Georgia, on specific needs of small and medium-sized businesses.

The variety and extent of these training resources in Florida and Georgia are quite impressive. The WTC will work immediately to link up with pre-existing intrastate technical training consortia, including community colleges, vocational-technical schools, large and small universities, and to establish new links between consortia across state lines. Aside from sheer quantity of available training resources, Georgia and Florida possess certain specialized training capabilities unmatched elsewhere. For example, the University of Florida has one of the more outstanding robotics programs in the country; the Georgia Institute of Technology is a leader in laser and microchip technology; Emory University has unique capabilities in applied biomedical research and cross cultural training; and the Southern Technical Institute is the largest and fastest-growing engineering technology college in the country. These capabilities extend to other universities and corporate training organizations as well.

This proposal will also utilize and promote the resources and programs provided by the traditional economic development community at the national, regional, state, and local levels. As part of each specialized training package, WTC trainers will make available information on all relevant export-related services and programs offered by federal and state government and private sector organizations, in effect helping these entities market themselves to a new small business constituency. In addition, the WTC will work closely with state and local governments and local chambers of commerce in developing its small business outreach program, and will make available information on potential exporters which it identifies.

Itemization by Program of Grant Request
Total Grant Request $400,000

The grant request can be broken down into four major categories:

Program Development	$150,000	Completion Time: 4 months
Skills Assessment	185,000	Completion Time: 4 months
Interstate Communications System	30,000	Completion Time: 2 months
Small Business Outreach	35,000	Completion Time: 6 months

Program Development -- Six models will be developed for the WTC by universities and corporate training organizations for train-the-trainer programs and technical training programs. A seventh model will be developed for broadening executives' understanding of the targeted foreign environment, i.e., language, cultural, social, foreign business practices, etc. Finally a model will be developed to assist executives in understanding certain information needed in exporting products and services, i.e., problems in installing, servicing and maintaining products; the use of training in the international business environment; the development of an action plan for meeting training needs, with the WTC's programs in mind.

Skills Assessment -- Technicians from universities, colleges and vocational schools from states adjoining Georgia, including Florida, South Carolina and Tennessee will comprise a portion of the technical resource base for the WTC. Exhaustive assessments of the academic institutions will be made to identify the technicians, their education and work experience, specific expertise, experience in foreign work environments, contract wage requirements, etc. This information has already been compiled for the State of Georgia via an Economic Development Administration grant funded in FY 1983. The Georgia World Congress Institutes, part of Georgia State University, conducted the first analysis and will conduct the three additional assessments through the World Technology Center.

The same type of skills assessment will be made in the top 100 businesses in the adjoining three states to Georgia and will also include Georgia. When completed the information system (which will also be developed in this package) will allow cross-referencing several categories to enable accessing 5 to 10 thousand technicians in the four state region. The model developed can later be used to provide the same assessments in other states in the region and the nation.

Interstate Communications System -- An electronic communiations system will be developed between Georgia and Florida, and later other states to allow dissemination of information specific to the daily operation of the WTC. This information will include a client and prospect network, a reference and library system, a curriculum development reference function and a resource network. A data base will be developed as information is received.

Small Business Outreach -- The WTC will develop an outreach program to small businesses throughout Georgia and Florida. Included in this program will be promotional materials and services, work with existing agencies and organizations currently involved in outreach to small businesses, and development of programs which utilize training networks associated with the WTC.

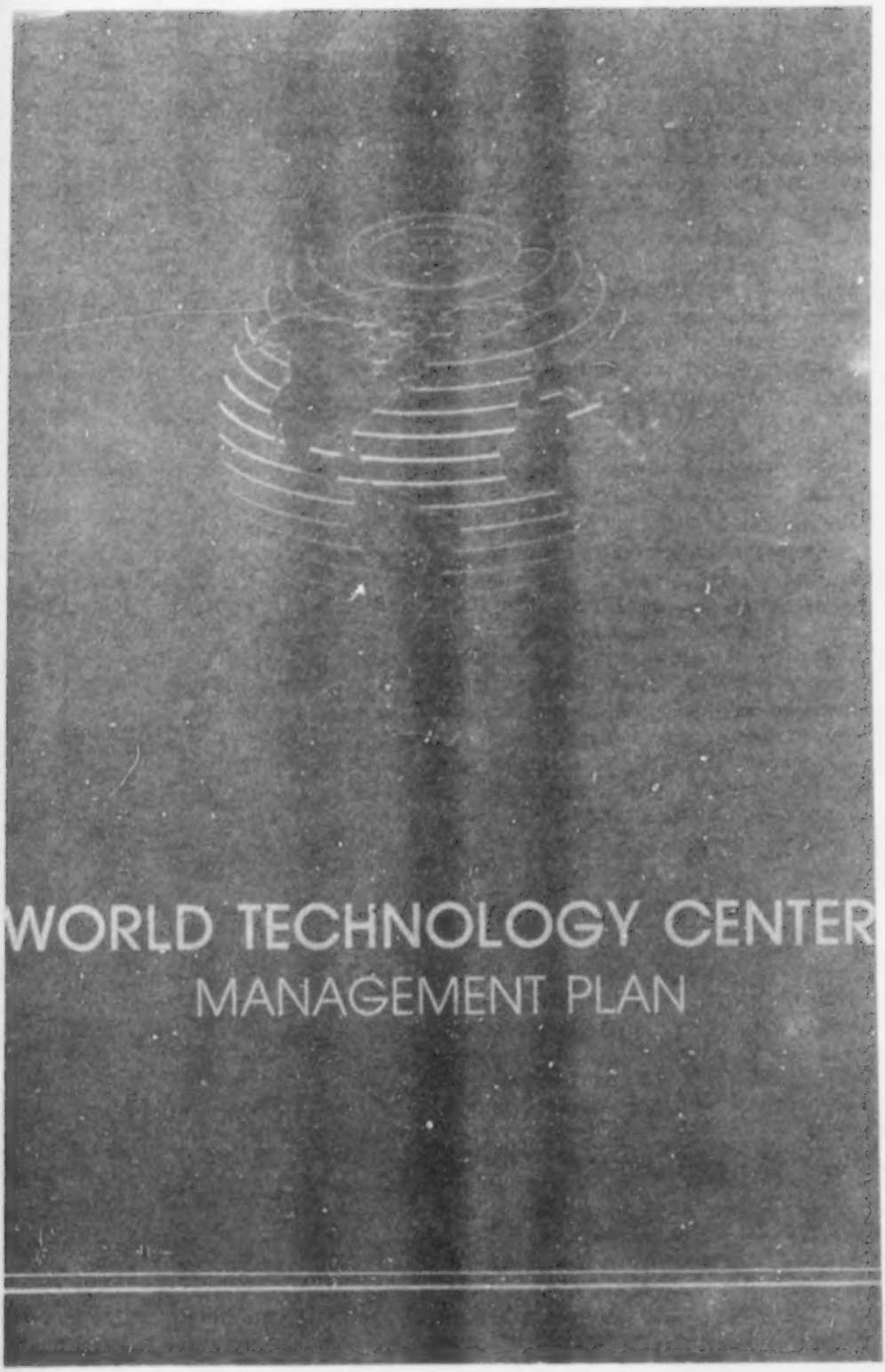
WORLD TECHNOLOGY CENTER
MANAGEMENT PLAN

TABLE OF CONTENTS

	PAGE
FOREWORD	2
ACKNOWLEDGEMENTS	3
SUMMARY ANALYSIS	6
DEVELOPMENT PLAN	16
SUPPORTING ANALYSES	
Center's Objectives, History and Key Factors	23
Description of Markets and Programs	28
Organization Analysis	37
Management Systems Analysis	41
Facility	44
Risk Analysis	45
APPENDICES	
Appendix I — Financial Projections	
Appendix II — Financial Projection Assumptions	
Appendix III — Assessment of Industrial Training in Developing Countries	

The overall objective of the World Technology Center (WTC) is to facilitate a coordinated effort to provide domestic and international technical training. WTC will bring together an unmatched training resource capability. Top corporate and university personnel throughout the U.S. will be utilized to produce high quality training teams which can be quickly mobilized.

WTC will be located 10 miles north of downtown Atlanta in Marietta, Georgia, a location of growing international commerce. This location will provide immediate access to the educational resources of Southern Technical Institute, Georgia State University, Georgia Institute of Technology, Emory University, Kennesaw College and 22 other metropolitan Atlanta academic institutions in addition to the substantial corporate training capabilities in the Atlanta area. The availability of international resources such as the Georgia World Congress Center and Institute, Cobb International Center, World Trade Club, Hartsfield International Airport and the 37 foreign consulates located in metropolitan Atlanta are also important factors.

The WTC will benefit the national and worldwide economy by promoting a better trained international work force. The ultimate result will be increased international trade.

WORLD TECHNOLOGY CENTER
EXECUTIVE COMMITTEE

Mr. Richard Harden
Chairman of Executive Committee
Chairman, Cobb International Center

Mr. Gordon Harrison
Project Coordinator
World Technology Center

Dr. Steven Cheshier
President, Southern Technical Institute

Dr. James Crupi
Executive Director
Georgia World Congress Institute

Mr. Pat Donnelly
President, Weyher/Livsey Constructors

Mr. Travis Storey
Manager, Closely Held Business Division
Arthur Andersen & Co.

Mr. Everett Wilcox
Partner, International Division
Alston & Bird Law Firm

ACKNOWLEDGEMENTS

A number of people have been involved in the development of this plan but a few have put forth the effort that turns ideas into reality. Unfortunately, space limitations do not permit mentioning all of the individuals involved; however, special recognition should be given to the following individuals and organizations. All names within an organization appear in alphabetical order.

BUSINESSES

Alston and Bird

Ben White
Everett Wilcox

Arthur Andersen & Co.

Mark Bell
Don Currin
Jim Edwards
Ken Kucera
Glenn Meyer
Travis Storey

Awtrey and Parker

Sydney Parker

Coca-Cola

Meg Burns
June Hunter
Earl Leonard
Connell Stafford

Connally Pechter & Company

Dennis Connelly
Richard Harden
Marvin Pechter

DDR International

Gordon Davis
Harvey Driscoll
David Martin

Essex Corporation

Steve Miller

Information Systems of America

Ron Robinson

King and Spalding

Governor George Busbee

Lockheed Corporation

Lee Rogers

Microelectronics and Computer Technology Corporation

Admiral Bob Inman

National Bank of Georgia

Terry Miller
Frank Roach

Patton Development Company

Earl Patton

Pinkerton and Laws

Jack Pinkerton

Research Atlanta

Beth Schapiro

Rock-Tenn Corporation

Cecil Phillips

Southern Company

Ken Duval
Harold McKenzie

Watkins Industries

Rogers Wade

Weyher/Livsey Constructors

Pat Donnelly

Consultants

Cleveland Cail
Ken Enger
Richard Martin
Teryl Lundquist
Jack Tyler
Lindsey Walters

ACADEMIC INSTITUTIONS

Board of Regents of the University System of Georgia

Chancellor Vernon Crawford

Emory University

Dr. Kenneth Stein

Georgia Institute of Technology

Dr. David Clifton
Dr. Bill Larson
Dr. Ken Maddox
Dr. Ben Roberson
Dr. Thomas Stelson
Mr. Rudy Yobs

Georgia State University

Ted Bayley
Dr. Ken Black
Dr. Kathleen Crouch
Jack McNally
Dr. Stan Smits

Georgia World Congress Institute

Dr. Jim Crupi
Henry Tacorda

Kennesaw College

Dr. Craig Aronoff
Dr. George Beggs
Dr. Betty Siegel

Southern Technical Institute

Sam Baker
Dr. Steven Cheshier
Walter Kelly

GOVERNMENT

State of Georgia

Tom Daniels
Lowell Evjen
Nellie Hoenes
Ed Kilgore
Tom Perdue
David Pinson
Steve Rieck
Clark Stevens
Larry Williams

Federal Government

Peter Bittner

GEORGIA CONGRESSIONAL DELEGATION

Congressman Barnard's Office

Joe Belew

Congressman Ray's Office

Congressman Richard Ray
Bill Talmadge

Senator Mattingly's Office

Emory Crandall
Taylor Josie
Lynn Shrader

Senator Nunn's Office

Bob Baier
Zada Johnson
Randy Nuckolls

OTHER

Cobb Chamber of Commerce - Phil Sanders
Cobb Development Authority - Wyman Pilcher
Dobbins Air Foce Base - Col. John Smith
Florida-Haiti Program - Joe Thomas
Georgia Chamber of Commerce - Penn Worden

SUMMARY ANALYSIS

This Management Plan is designed to provide an understanding of the World Technology Center as it is currently envisioned. It will be revised and updated as additional information is obtained and as specific ideas are tested and evaluated.

This section provides a summary of the current plan. The Development Plan section outlines the actions required during the next two years in order to develop the Center. The Supporting Analyses and Appendices provide more detail.

Introduction

For several years academic institutions have attempted to meet the rising need for technical training in domestic corporate organizations and infrastructure organizations in developing nations. As this academic training has evolved, a number of corporate organizations have become involved in similar activities.

Analyses of current training trends indicate that much of these activities are independent and that, while some training networks exist, there has been relatively little effort to "combine forces" in order to expand the training base. Interviews and discussions with trainers, users of training efforts and training organizations have indicated that there is an increasing need for the establishment of a coordinative mechanism to provide a broad pool of technical training as well as additional infrastructure support for industry. The World Technology Center has been organized for this purpose.

The World Technology Center will make available to users a coordinated pool of training resources. A broad network of top corporate and academic personnel located throughout the U.S., which can be quickly mobilized to produce high quality training, will be assembled. This will make available to users a single source of training which will meet a wide variety of training needs, including specialized training, on a timely basis at a reasonable cost. Through collective strength and the capability to offer "one-stop shopping" for training needs, the Center will provide a resource base for domestic businesses new-to-market and new-to-export and foreign organizations.

Center's Objectives, History and Key Factors

The Center's overall objective is to facilitate technical training. This objective will be accomplished primarily by coordinating existing training resources such as colleges, universities and corporations to train a broad range of users. There are five specific objectives that guide the development of the Center.

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- Provide training support for U.S. companies that wish to export products and services.
- Provide training support for the technical infrastructure organizations in developing countries.
- Provide training support for foreign companies that are locating facilities in the U.S.
- Serve as a focal point for the research and development of improved technical training techniques.
- Serve as a clearinghouse for information on technical training as it relates to international activities.

For several years, Southern Technical Institute has been providing technical training for both U.S. companies and various foreign countries. Limited facilities and technical staff however, tended to restrict training opportunities to but a fraction of Southern Tech's potential. In October of 1982, Dr. Steven Cheshier, President of Southern Tech, and Mr. Richard Harden, Chairman of the Cobb International Center, held a meeting to discuss the possibility of establishing a center to coordinate international training. From this meeting came the suggestion to explore the idea with officials from Georgia's Congressional delegation, regional Federal agencies and area businesses. Subsequent meetings and involvement with a wide range of individuals and organizations confirmed the viability of the idea and eventually led to the assignment of a full-time professional to further explore the potential. Additionally, several advisory groups were formed and research documents were produced to formulate the basis for this Management Plan.

Factors critical to the success of the Center include:

- Its support and utilization by a broad range of academic and business organizations.
- The ability to provide an effective, timely training product.
- Access to the resources needed to provide the training.
- An effective marketing effort.

Description of the Center's Markets and Programs

The Center has four basic markets:

- U.S. companies requiring technical support to export products and services.

- Developing country organizations that are responsible for developing and maintaining the technical infrastructure. Includes both technical and policy organizations.

- Foreign companies needing assistance in providing technical training to U.S. employees.

- Training organizations, both U.S. and foreign, needing assistance in developing and delivering their services.

The Center will develop six course programs and two support programs to address the needs of these markets. The Technician Courses will represent the majority of the Center's activity and will be designed to meet the needs of individual clients. There will also be a significant demand for Trainer Courses in which trainers will be taught advanced techniques for training technicians. The Executive Courses will examine the financial and organizational commitments required to produce, use and/or market technical products and services in international markets. In a similar manner, the Management and Foreign Sales/Marketing Courses will assist both management and technical personnel in understanding the special requirements which must be met in order to successfully operate internationally. These latter courses will be relatively brief. The Specialized Group Programs will combine all of the other course programs to offer packaged training opportunities to businesses requiring comprehensive attention.

Integrated into all training programs will be courses or series of lectures informing participants of the problems existing in operating in a foreign environment. This will assist all levels of personnel in accepting and understanding behavioral patterns, management styles, cultural requirements and language differences existing between countries.

The Information Exchange Program will provide information on the resources and programs that are available at the Center. The Training Technology and Development Service Program will focus on developing improved training techniques.

Organization Analysis

The Center's organizational structure will be similar in nature to that of a corporation of comparable size. There will be a Board of Trustees to establish policy, review and approve budgets and select the executive director. The Board of Trustees will be supported by an Advisory Board and a series of advisory committees composed of individuals who have distinguished themselves in areas such as government, industry, the military, service delivery, small business, high technology, banking, finance, and of course, training development.

An Executive Committee will provide guidance to and oversight of the Center. The Committee will be composed of a subgroup of officers on the Board of Trustees and the Center's executive director. This Committee has been in place since June 1983 overseeing the Center's development.

The Executive Director will direct the day-to-day operation of the Center. Reporting to him will be Directors of Training, Research, Marketing and Administration.

Management Systems

Several management systems will be required:

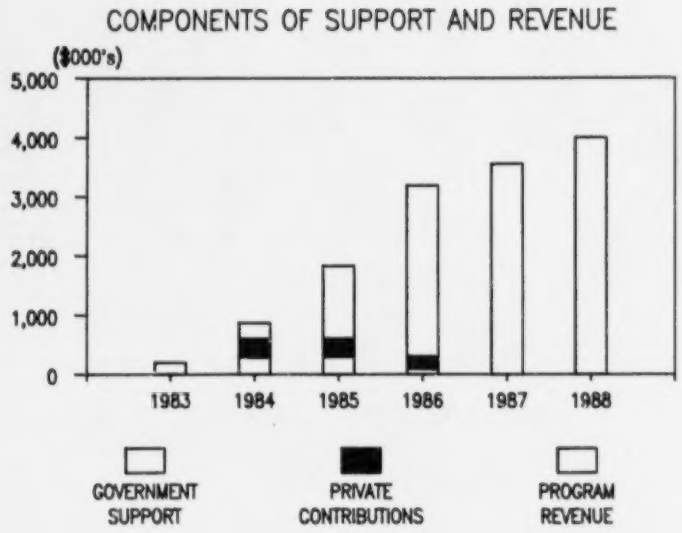
- Client and Prospect System to maintain international information on existing and prospective clients.
- Resource System to maintain information on the professional resources available nationally to meet the needs of the clients.
- Communications System to facilitate communication between the various groups involved and to eventually include a video capability.
- Internal management systems to support the library, curriculum development programs and facility management needs.

These support systems will be integrated into a centralized computer network with in-house as well as external retrieval capabilities.

Facility

Initially, the Center will be housed in an interim facility designed to accommodate a small core staff with minimal in-house training activities. It is anticipated that this facility will have to be renovated into classroom, laboratory and workshop space that will accommodate a wide variety of training needs, as these needs are identified. The permanent facility will provide a complete training environment and, ultimately, include training facilities, dormitories, and corporate training annexes. The permanent facility, to be completed in 1986, will be designed so that growth of the Center may be integrated into an expandable facility.

Financial Analysis



Financial projections have been prepared as a result of interviews and discussions with experienced professionals involved in training in both business and academic environments. Assumptions as to course revenues and costs, course development expenditures, attendance levels, number of courses by type, frequency and length of course sessions, and personnel requirements and salary levels are based on these interviews and discussions as well as reviews of current training and educational activity. Detailed financial projections are included in Appendix I and financial projection assumptions are included in Appendix II.

Initially, government grants and private contributions will be required to establish the Center. Federal and private support totaling $200,000 in 1983, $600,000 in 1984 and 1985 and $300,000 in 1986 will be required to initiate program development. This is the minimum funding level required for this purpose. In the event additional funds are received, the development of courses could be accelerated so that the overall training activity level (e.g., number of course sessions, total attendees, etc.) would be increased sooner.

However, based on current projections, fees generated from courses conducted will increase from an initial level of approximately $273,000 in 1984 to approximately $3,553,000 in 1987 at which time the Center will be self-supporting. Potential sources for these course fees are discussed on page 13.

PROJECTED OPERATIONS SUMMARY

	1983	1984	1985	1986	1987	1988
Support and Revenue						
Government support	$200,000	$300,000	$ 300,000	$ 100,000	$ —	$ —
Private contributions	—	300,000	300,000	200,000	—	—
Program revenue	—	273,000	1,230,000	2,890,000	3,553,000	3,966,000
Total Support and Revenue	200,000	873,000	1,830,000	3,190,000	3,553,000	3,966,000
Program Expenses	—	242,000	666,000	1,246,000	1,577,000	1,731,000
Supporting Services	26,000	681,000	1,115,000	1,668,000	1,821,000	2,021,000
Excess (Deficiency) of Support and Revenue over Expenses	$174,000	$(50,000)	$ 49,000	$ 276,000	$ 155,000	$ 214,000

PROJECTED FINANCIAL POSITION

	1983	1984	1985	1986	1987	1988
Assets						
Current assets	$168,000	$ 35,000	$ 44,000	$ 100,000	$ 227,000	$ 382,000
Fixed assets, net	6,000	185,000	227,000	2,592,000	2,396,000	2,231,000
Total Assets	$174,000	$220,000	$271,000	$2,692,000	$2,623,000	$2,613,000
Liabilities and Fund Balances						
Current liabilities	$ —	$ 96,000	$ 98,000	$ 334,000	$ 334,000	$ 334,000
Bonds payable	—	—	—	1,909,000	1,685,000	1,461,000
Fund balances	174,000	124,000	173,000	449,000	604,000	818,000
Total liabilities and fund balances	$174,000	$220,000	$271,000	$2,692,000	$2,623,000	$2,613,000

PROJECTED CASH FLOW ANALYSIS

	1983	1984	1985	1986	1987	1988
Net Cash Flow	$168,000	$(153,000)	$(11,000)	$4,000	$97,000	$115,000
Net Cash Balance	$168,000	$15,000	$4,000	$8,000	$105,000	$220,000

As previously discussed, government and private support will be required to establish the Center and fund its initial development. Program revenues will be generated from course fees ranging from $120.00 to $500.00 per course day per attendee. Total course sessions are expected to increase from 27 in 1984 to 171 in 1988. Total course attendees, excluding those attending specialized group programs, are expected to increase from approximately 300 in 1984 to approximately 2,500 in 1988. This will result in an increase in course revenues to a level of approximately $3,966,000 in 1988.

Program expenses ranging from approximately $242,000 in 1984 to $1,731,000 in 1988 will be incurred in connection with educational contract fees and related expenses incurred for course development and instruction. The most substantial portion of these expenses will be paid directly to academic institutions for conducting courses on a contract basis. For this reason, expense levels will increase on a proportionate basis with the number of course sessions conducted and the number of new courses developed.

Supporting services expenses represent expenses incurred in connection with administration of the Center, planning, marketing and executing programs and courses and conducting research activities. This expenditure is expected to increase from $681,000 in 1984 to $1,668,000 in 1986 as the staff increases from a core group of seven personnel to a fully staffed organization of approximately 20 to 25 personnel.

The Center will initially lease office space and purchase office furniture and equipment. Training facilities will be rented as needed. Current plans are to build a permanent facility in 1986 to accomodate the Center's office and much of its training needs. It is anticipated that this facility will be financed by a bond issuance repayable over a term of approximately 10 years. At that time cash flow from the Center's operations will be sufficient to repay this debt.

International Training Expenditures

A number of organizations have been identified which expend substantial sums on a broad range of training activities. Analyses have shown that accessing even a minute part of these programs would produce a substantial revenue for the Center. Four separate sources of revenue have been identified:

- World development organizations,
- Multinational corporations,
- Federal and state grants, and
- Private foundations.

WORLD DEVELOPMENT ORGANIZATION BUDGETS
(INCLUDING TRAINING BUDGETS)

	1983 ESTIMATE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)	1982 WORLD BANK	1982 INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)	1981 ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)	1981 UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)	1982 INTERNATIONAL LABOR ORGANIZATION (ILO)
TOTAL (In Millions)	$10,943	$90	$460	$5,249	$287	$91

TOTAL $17,120

Appendix III has been produced for the World Technology Center Management Plan to identify potential revenue sources from organizations assisting in the development of lesser developed countries. The identified organizations have annual aggregate budgets of approximately $17 billion. A substantial portion of this sum is specifically alloted to training. Appendix III discusses each one of the organizations in terms of scope of activity, regional training needs, industrial activities of that region and allotments set aside for training. This document is a summary of an extensive effort to locate revenue sources. Background data and reference material can be obtained from Georgia State University's Georgia World Congress Institute. Special recognition is made to Mr. Henry Tacorda, an MBA student attending Georgia State on an International Rotarian Fellowship, who conducted this survey under the tutelage of Dr. James Crupi.

AMERICAN MULTINATIONAL CORPORATIONS CONTRACTUAL TRAINING EXPENDITURES

Although numerous private interviews have been conducted with business enterprises and a number of these businesses have been involved in the development of this plan, the article reprinted is an excellent presentation of revenue sources and training expenditures from American multinational corporations. Above is an illustration from the article which indicates that approximately $1.6 billion is available from U.S. companies for contractual training services. This figure does not include foreign corporate revenue sources or U.S. companies wishing to contract for services for exports.

Initial studies indicate that there are a substantial number of Federal programs which exist to support activities such as the World Technology Center. Some of these programs would be pertinent to the overall economic development thrust of the Center. Others would relate to specific activities of the programs. For example, the Center will provide training assistance to small businesses in export activities. Programs in the Small Business Administration, Agency for International Development, Department of Commerce, and others currently provide financial assistance for these activities. Generally, this assistance is in the form of fee-for-service contracts.

Specialized training revenue sources may be found in the Federal Department of Labor, the Department of Education and the Economic Development Administration. It may be possible to access the Jobs

Training Partnership Act (JTPA), or more specifically, the Wagner/Peyser Act Fund, which is a 10% set aside flowing through each state governor's office. Additionally, a number of Federal agencies have a Secretary's Discretionary Fund, through which activities such as the World Technology Center are supported.

It is recognized that state government is budgetarily restricted because of Federal cutbacks. However, many Federal grants-in-aid flow through the state which could initially support the Center in either fee-for-service contracts or in-kind contributions. These include the JTPA, Community Development Block Grant, funds from the Wagner/Peyser Act, and others.

Private foundations may offer substantial revenue sources for the Center. Many of these organizations, such as the Rockefeller, Kellogg and Ford Foundations, as one of their activities, assist developing nations in a number of ways. A strong effort will be made to work with representatives from these organizations to further their causes.

Risk Analysis

There are several potential problems which could inhibit successful implementation of the Center concept:

- Business organizations and academic institutions might view the Center's programs as competitive with their own.
- An economic downturn could seriously limit training dollars from users and funding from government sources.
- Attempts by the Center to serve too broad a market might hamper its ability to provide a high quality training product.

DEVELOPMENT PLAN

Putting an organization of this magnitude together requires a systematic, careful approach if the programs are to be carried out in a timely and cost effective manner. The key is to begin operating within defined parameters and then expand programs in positive, incremental steps.

The previous section summarized the Center's current situation. This section presents recommended actions to solve problems and take advantage of opportunities. The following narrative discusses major actions already accomplished and those which will occur in the next two years. The chart on page 22 represents detailed actions and events planned for the next four years.

Recommended Actions for 1983

A significant number of actions have already been completed during 1983. A core group of organizations and individuals has been identified and an Executive Committee has been organized. This group has been involved in the development of program implementation and overall planning. Identification of training resources has begun and a data base of training methods is being created. Initial programs have been identified by a working panel of training experts, and a financial/marketing plan has been developed by financial and banking advisors. For this particular effort a full-time financial advisor is on loan to the project. Additionally, several documents have been prepared for the purpose of identifying revenue sources.

Community, academic and business leaders have been involved and an advisory board of directors is being identified. A panel of management advisors has suggested an initial organizational structure. Finally, an acting executive director has been selected and is currently coordinating implementation activities.

Develop Overall Plan

Individual and organizational support of the Center is growing at a very fast pace. This growth has made overall coordination more complex and has created the need for a more formalized planning process. A significant step was taken this year in the acquisition of a full-time Project Coordinator and a Financial Advisor. A second important step was the identification and organization of an Executive Committee, a committee of training experts, and a committee of financial advisors.

This Management Plan has been written to help the Center make maximum use of its available resources and begin operation as soon as possible.

The first step in the preparation of an overall plan was to identify and define resources and programs to be integrated into the Center's operation. Once the objectives were agreed upon, a detailed plan was developed to ensure that the concensus ideas were integrated into the Management Plan. Finally, a written plan was prepared so everyone involved could understand what the Center is trying to accomplish and how it intends to go about doing it.

This document is the Executive Committee's proposed Management Plan. It is anticipated that this document will be utilized to approach various government and private organizations for financial assistance and to inform the public as to the nature of the Center.

Develop Detailed Organizational Plan

Numerous discussions held over the past several months indicate a number of ways to organize the Center. The type of organization selected will affect all other elements of the plan and must therefore be addressed early on.

The World Technology Center has now been established as a private nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Note: a copy of this document may be obtained through the Center's Board of Trustees.

The next step in the process to formulate a workable organization will be to assess the fiscal resources available to hire key staff and then attempt to organize these individuals into an effective mechanism for meeting training needs.

The organizational chart on page 39 represents the planned structure when staffing is complete in 1986.

Develop Detailed Program Plan

Substantial training is being conducted by academic and business organizations. One of the activities to date in the planning for the Center has been to survey a number of organizations to understand and compile the various mechanisms and philosophies for skills development. Many of these concepts were incorporated into this document.

The next step will be to actually formulate training courses for the Center that first, will produce a high quality training product and second, will complement a wide variety of external training organizations so that contractual arrangements can be made where outside resources can provide the most effective product. A group of training experts selected in June 1983 will oversee development of the Center's programs to ensure that these two factors are considered.

Develop Detailed Financial Plan

A sound financial base has been the cornerstone of developmental activities to date. As program and administrative issues have been identified, close scrutiny has been given to the underlying financial feasibility.

A group of financial advisors was selected in June 1983 to assist in the development of a financial plan. After surveying existing organizations with training activities, projections on revenue and expenses for the Center have been developed. The initial financial plan for the Center is summarized in Appendix I. The next step will be to write a detailed budget for program operation for 1984.

Develop Detailed Facilities Plan

The Center will have a variety of space needs upon becoming operational. Many of these needs will probably arise from special training activities requiring different types of equipment and infrastructure couplings.

A detailed facilities plan will determine initial space and equipment needs. Additionally, the plan will provide direction on the time parameters for renovation and installation of specialty equipment and structures.

Obtain Initial Funding

Market surveys indicate that a training center should be able to support itself financially. Initially, however, it will be necessary to finance the development of the program and operational needs through other arrangements. Based on survey results, the best "mix" of funding sources would be through a partnership between Federal, state and private organizations. Such an arrangement would not only encourage the perception of a wide base of support, but would also divide the financial responsibility for the Center's development and beginning operations.

In order to become operational by January, initial financing should be received by November. This will allow two months for continued planning of program aspects and hiring of appropriate staff. Activities to secure funding will include meetings with members of the Congress and representatives of Federal and state agencies.

Appoint the Board of Trustees and Board of Advisors

A Board of Trustees, composed of senior corporate and academic individuals, will be established to provide a wide range of expertise in setting policy and guiding the development of the World Technology Center. A Board of Advisors, composed of acknowledged leaders in several fields, will be appointed to

assist the Center by providing name recognition and general guidance on the operation and maintenance of the facility. Many of these individuals have already been identified and selected. It is anticipated that these groups will expand in size during the course of the next few years.

Those appointed to both Boards will have demonstrated interest in the World Technology Center or will have played some role in its development.

Select Executive Director and Other Key Staff

Since the Center has emerged from a concept into a realistic project, internal needs have become more complex. In the past year, the project has become a multifunctional, legal organization with an Executive Committee, several advisory committees, two full-time professionals and a host of supporters and participants statewide and in Washington.

An Executive Director has been selected and is performing in an "acting" capacity at this time. This individual will soon be charged with the responsibility for internal matters and will help the Executive Committee coordinate increasingly complex day-to-day activities including hiring key staff to begin program operations. These activities will include implementation of the development plan, securing of financing and identification of other staffpersons necessary to begin program operations.

Select and Locate in an Interim Facility

The Executive Committee should appoint a Building Committee as soon as is feasible, to ensure that an appropriate interim facility is found and that all the details associated with the move are properly planned. The Executive Director should be put in charge of planning for the move.

Recommended Actions for 1984

If the actions outlined for the remainder of 1983 are completed on schedule, the Center will be in a good position to begin operations in January 1984. Actions needed in 1984 include hiring key staff and continued program updating and operational development.

Begin Marketing Effort

Training operations will begin as soon as the Center is organized and professionals are in place who can coordinate the systems and programs. It is anticipated that initially, customers will utilize the Center through personal networks and contacts from Federal agencies. While some sustained usage may be secured

through these channels, financial independence and growth can be achieved only through a substantial marketing effort, combined with a client and prospect network in the Center's computer system.

A marketing program would be coordinated by one or more program directors and managers. This program would include promotional material, mass mailings and personal meetings in state, in other states and other countries.

Begin Initial Pilot Courses

The new organization of the World Technology Center, supported by a professional staff organization, an Advisory Board, a Board of Trustees and an Executive Committee will be in place and functional by 1984. It is reasonable to assume that at this point in time, some initial program operation can begin and the Center can begin to implement training programs at this time. It is anticipated that the Center will offer several pilot training programs in order to locate weaknesses existing in the system and to enhance credibility when actual training and marketing efforts are initiated.

It is recommended that the Executive Committee be given responsibility for coordinating the implementation of training plans and that the Executive Director be charged with the responsibility for managing the day-to-day operations of the Center.

Begin Renovation of New Facility

The Center's initial training will be conducted externally. Its primary service will be to coordinate external resources and to facilitate technical training. Thus, initially, space will be needed primarily for administrative personnel. As core curriculum programs develop and in-house training possibilities evolve, more space will obviously become necessary.

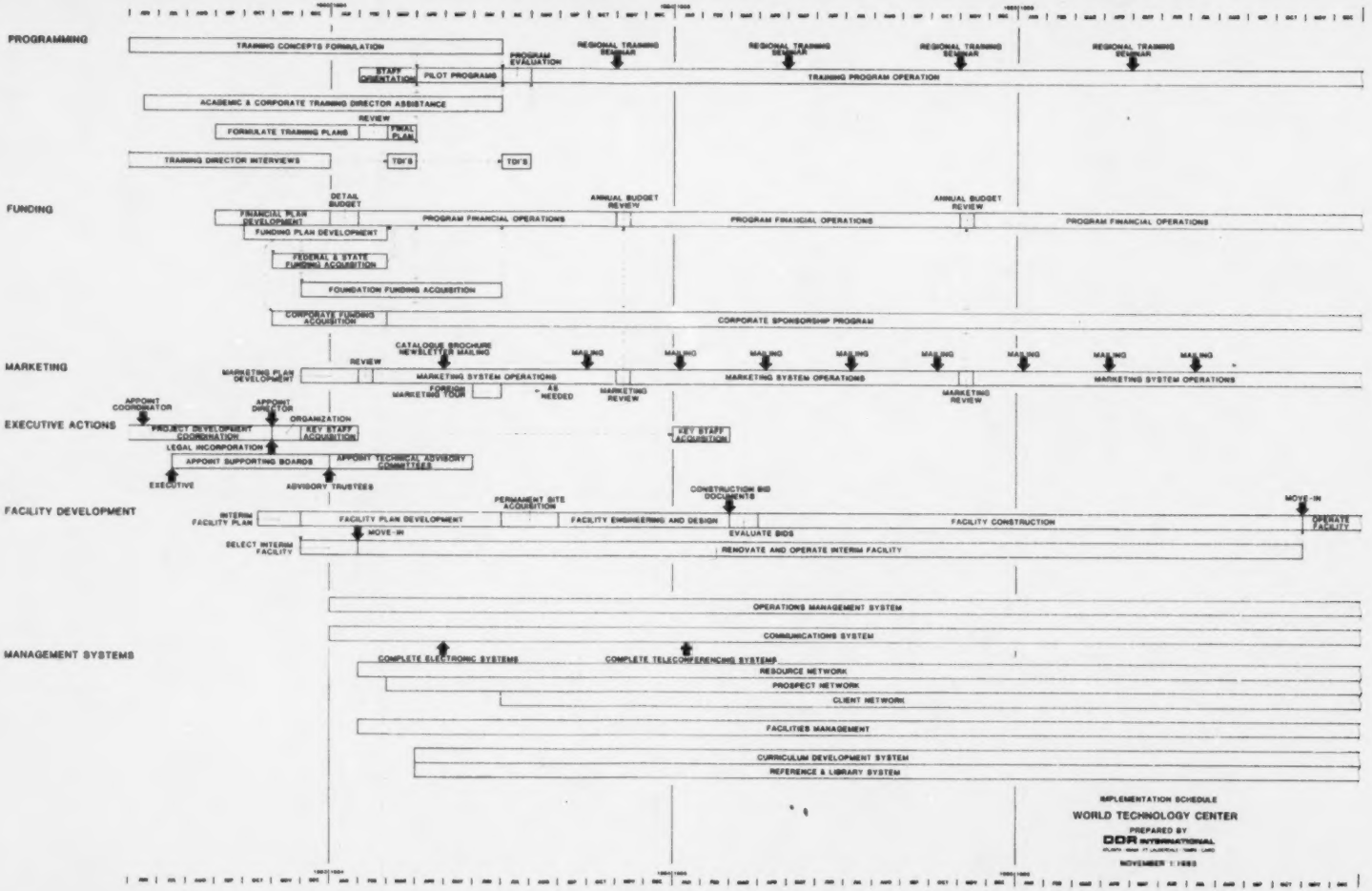
Immediately after program implementation, a task force, under the supervision of the Executive Director, should assess the needs and costs involved in renovating the facility to accommodate in-house training activities. The Executive Committee should be empowered to assist in fund raising and to make decisions concerning the construction. The Executive Director will oversee actual operations.

Permanent Site Selection and New Facility Implementation

The purpose of the interim facility is to accommodate the needs of the Center's initial operations. If the Center is to become a regional base of training and development, however, a permanent site must be located and adequate facilities should be constructed. Eventually, the site should accommodate a wide range of training facilities and include space for dormitories for

students, housing for visiting training instructors and possibly operational training facilities of other businesses.

The Board of Trustees will be empowered to appoint a task force to formulate a development plan for a site and a new facility. The Executive Director will oversee this task force. Subsequently, architectural and engineering feasibility plans will be drawn up through bid processes.


PROGRAMMING
TRAINING CONCEPTS FORMULATION
STAFF ORIENTATION
PILOT PROGRAMS
PROGRAM EVALUATION
REGIONAL TRAINING SEMINAR
REGIONAL TRAINING SEMINAR
REGIONAL TRAINING SEMINAR
REGIONAL TRAINING SEMINAR
TRAINING PROGRAM OPERATION
ACADEMIC & CORPORATE TRAINING DIRECTOR ASSISTANCE
REVIEW
FORMULATE TRAINING PLANS
FINAL PLAN
TRAINING DIRECTOR INTERVIEWS
TDY'S
TDY'S
FUNDING
DETAIL BUDGET
ANNUAL BUDGET REVIEW
ANNUAL BUDGET REVIEW
FINANCIAL PLAN DEVELOPMENT
PROGRAM FINANCIAL OPERATIONS
PROGRAM FINANCIAL OPERATIONS
PROGRAM FINANCIAL OPERATIONS
FUNDING PLAN DEVELOPMENT
FEDERAL & STATE FUNDING ACQUISITION
FOUNDATION FUNDING ACQUISITION
CORPORATE FUNDING ACQUISITION
CORPORATE SPONSORSHIP PROGRAM
MARKETING
CATALOGUE BROCHURE NEWSLETTER MAILING
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REVIEW
MARKETING PLAN DEVELOPMENT
MARKETING SYSTEM OPERATIONS
MARKETING SYSTEM OPERATIONS
MARKETING SYSTEM OPERATIONS
FOREIGN MARKETING TOUR
AS NEEDED
MARKETING REVIEW
MARKETING REVIEW
EXECUTIVE ACTIONS
APPOINT COORDINATOR
APPOINT DIRECTOR
ORGANIZATION
PROJECT DEVELOPMENT COORDINATION
KEY STAFF ACQUISITION
KEY STAFF ACQUISITION
LEGAL INCORPORATION
APPOINT SUPPORTING BOARDS
APPOINT TECHNICAL ADVISORY COMMITTEES
EXECUTIVE
ADVISORY TRUSTEES
FACILITY DEVELOPMENT
INTERIM FACILITY PLAN
FACILITY PLAN DEVELOPMENT
PERMANENT SITE ACQUISITION
FACILITY ENGINEERING AND DESIGN
CONSTRUCTION BID DOCUMENTS
FACILITY CONSTRUCTION
MOVE-IN
OPERATE FACILITY
MOVE-IN
EVALUATE BIDS
SELECT INTERIM FACILITY
RENOVATE AND OPERATE INTERIM FACILITY
OPERATIONS MANAGEMENT SYSTEM
COMMUNICATIONS SYSTEM
MANAGEMENT SYSTEMS
COMPLETE ELECTRONIC SYSTEMS
COMPLETE TELECONFERENCING SYSTEMS
RESOURCE NETWORK
PROSPECT NETWORK
CLIENT NETWORK
FACILITIES MANAGEMENT
CURRICULUM DEVELOPMENT SYSTEM
REFERENCE & LIBRARY SYSTEM
IMPLEMENTATION SCHEDULE
WORLD TECHNOLOGY CENTER
PREPARED BY
DDR INTERNATIONAL
NOVEMBER 1, 1983

CENTER'S OBJECTIVES, HISTORY AND KEY FACTORS

If the Center's plan is to prove workable, the people involved must first agree on its objectives. They must also have an understanding of the Center's concept and how various people and organizations have become involved with it. Finally, they must agree on the factors that are critical to the success of the organization. With this understanding they should be able to develop a plan that will permit the Center to grow in a logical and evolutionary manner.

Objectives

The Center's overall objective is to facilitate technical training through a variety of methods. Five specific objectives will guide the development of the Center:

- Provide training support for U.S. companies that want to export products and services.
- Provide training support for technical infrastructure organizations in developing countries.
- Supply training support for foreign companies that are locating facilities in the U.S.
- Serve as a focal point for the research and development of improved techniques for technical training.
- Serve as a clearinghouse for information on technical training as it relates to international activities.

U.S. Companies Wanting to Export

There are a significant number of U.S. companies that could be competitive in world markets if they were able to obtain technical support for the installation, maintenance and repair of their products. Few of these companies, however, have the resources or the knowledge needed to train their own personnel to operate in a foreign country or to train foreign technicians to provide the support.

The Center's objective will be to identify these companies through training resource networks and marketing efforts and work with them to provide the information and training in a cost-effective manner.

Infrastructure Organizations in Developing Companies

In many developing countries, infrastructure organizations are not able to properly install, maintain and repair their equipment and facilities. They simply do not have the trained personnel needed to keep the water, electrical installations, communications and highway equipment and facilities in good working order.

The Center's objective will be to work with executives and managers of these organizations to develop training techniques that can be used in these countries and to assist in training the trainers.

U.S. Employees of Foreign Companies

Many foreign companies have to transfer key technical personnel to the United States because they are not able to recruit U.S. employees with the technical, language and cultural skills needed to hold key positions in the organization. If U.S. immigration laws continue to become more restrictive, these companies will have an increasing need for U.S. citizens with the appropriate skills.

The Center's objective will be to determine the types of special skills required and to work with foreign companies which wish to train U.S. employees to fill these roles.

Focal Point for Research and Development

While a large number of organizations are providing technical training, most are strictly concerned with the needs of specific clients and resolving their training problems with accepted methodologies and techniques. There are few if any organizations involved in compiling previously successful training techniques and improving on them through research and application.

The Center's objective will be to provide an environment that is conducive to research and to assist professionals in obtaining grants for research and development of new training programs. The results of this research will assist the general training field by providing new training techniques and will also serve to assist Center programs by providing unique or innovative solutions to clients using the Center.

Clearinghouse for Information on Technical Training

During the development of this Management Plan it became obvious that there is no clearinghouse for information on technical training. There is no single place where a professional trainer can obtain estimates of the demand for his particular expertise. Conversely, there is no place where the client in need of training can go to determine available training services and the names and locations of trainers available to provide them.

The Center's objective will be to serve as a clearinghouse for the collection and distribution of this information.

History

October 1982

The idea for the Center originated on October 15, 1982, at a meeting called by Dr. Steve Cheshier, President of Southern Technical Institute and Mr. Richard Harden, Chairman of the Cobb International Center. The purpose of the meeting was to discuss the growing international demand for technical training. Southern Technical Institute and other academic institutions were receiving an increasing number of requests for training by both domestic and foreign organizations which were difficult to meet because of limited staff and resources. The idea of an international training center, featuring the collective strength of a broad range of training organizations, was suggested as a means to meet the demand. Mr. Harden agreed to bring together other people and organizations to further discuss the idea. A brief paper was written at this meeting providing some common objectives and bases for further action.

January 1983

A meeting was held on January 26, 1983 and included representatives from Southern Technical Institute, the Cobb Chamber of Commerce, DDR International Company, Kennesaw College, Lockheed-Georgia, Cobb County Development Authority and Connally Pechter and Company. The idea was further explored among these individuals and plans were made to expand the paper to include actions necessary to formalize the organizational planning of the Center.

May 1983

This was followed by a meeting on May 12, 1983. In attendance were individuals from the first meeting as well as representatives from the Governor's Office, the federal General Services Administration, the offices of Senators Nunn and Mattingly, Congressman Elliott Levitas' office, and the State Department of Industry and Trade. Numerous businesses were involved as well as local media and representatives from several academic institutions. The purpose of this meeting was to review the report which had been prepared, to attempt to set a schedule of activities, and to further identify individuals important to the process.

June 1983

In early June, Mr. Harden arranged for Mr. Gordon Harrison of the State Office of Planning and Budget to be assigned full-time to the project. Mr. Harrison began his work by meeting with a wide range of people to discuss the concept and then writing a 45-day work plan formalizing the process of bringing in key individuals and organizations.

In late June, an Executive Committee was established to oversee the growing organizational efforts and to assist in formulating a draft management plan. Two advisory committees were formed. The first group consisted of top training experts and managers from the business sector and academic institutions. The second consisted of senior financial and corporate executives.

August 1983

In August, the first group met to discuss technical aspects of the programs and possible organizational plans. During this meeting, several key individuals were identified and an ongoing work group was formed to explore several of the issues brought up at the meeting.

Also in August, Mr. Pat Donnelly arranged for Dr. Cheshier and Mr. Harrison to meet with Admiral Bob Inman, President and Chief Executive Officer of the Microelectronics and Computer Technology Corporation, to seek his guidance in the formulation of the plan. From this meeting came several key suggestions on approaches for implementation and an offer of help from the Admiral to assist in follow-up issues and meetings.

September 1983

In early September, a group of financial advisors met to discuss strategies for funding, budgetary mechanisms and legal structures for the Center. A work group was identified to explore these issues. Meetings were then scheduled with business and academic organizations to lay the foundation for implementation of the Center from a financial perspective.

The work of these two groups, in addition to the efforts of the individuals briefly mentioned in the acknowledgements, formed the groundwork for the organization of the center. The culmination of these activities led to the development of this work plan and conclusion of the initial developmental phase.

Key Factors

Factors critical to the success of the Center include:

- Its support and utilization by a broad range of academic and business organizations;
- The ability to provide an effective, timely training product;
- The capability to gain access to the resources needed to provide the training; and

. The ability to coordinate an effective marketing effort.

Since one of the Center's major roles will be to coordinate the delivery of services by a broad range of professionals, it is essential that an equally diverse group of both public and private organizations are actively involved in its operation.

As is the case with any business, the Center must provide a quality product if it is to grow and prosper. While it should not encroach on the perogatives of the professional trainer, it must ensure that all courses offered through the Center are of the highest quality.

There is no way a single organization can address all the technical training needs that have been discussed in this plan. It is critical, therefore, that the Center develop a network of training resources that can be utilized to meet the specific needs of a given client.

Finally, the Center must develop effective techniques for marketing its capabilities and the capabilities of the resources to which it has access. This marketing effort is particularly critical in the early stages of the Center's development.

DESCRIPTION OF MARKETS AND PROGRAMS

To be successful, a business must define both its markets and the products it can sell to these markets. In a similar manner, the Center must carefully define the markets it is attempting to serve and the programs it can provide for them. Just as the business must adjust to changing market conditions, the Center must adjust its programs to the changing needs of the people it serves. This analysis examines the people served, the programs to be provided and some examples of how the programs will be used to address market needs.

Markets

The Center has four basic markets:

- U.S. companies which want to export products and services that require technical support.
- Organizations in the developing countries responsible for developing and maintaining the technical infrastructure.
- Foreign companies that need assistance in providing technical training to U.S. employees.

. Training organizations, both U.S. and foreign, that need assistance in developing and providing their services.

U.S. Companies with Products to Export

There are an increasing number of U.S. companies that have technical products and services that would sell well in the international marketplace. One of the problems they face is having people trained to sell, install, maintain and repair their products. These service companies must also help their employees overcome language and cultural problems.

The Center will begin its marketing effort to these companies by surveying such companies to more accurately determine their needs and to identify the types of training that can meet these needs. Once the survey has been completed and some pilot courses conducted, promotional material will be developed discussing how the Center can address the needs of these companies. The material will be sent to appropriate companies and follow-up calls and visits will be made by the marketing staff.

Infrastructure Organizations In Developing Countries

There are many infrastructure organizations in the developing countries that do not have adequate personnel to keep their facilities operating properly. The inability to maintain their water, power, communications and highway systems hampers their economic development efforts. They need better ways of training their employees, including having more properly trained trainers.

There are several ways that the Center can market its services to these organizations and governments. First, U.S. companies that are attempting to sell them products may recommend the Center as a means of obtaining the required training. The various Federal agencies and private organizations that are trying to help these countries improve their economic base will also be a source of referrals. Many of the professionals that will be working with the Center will already have contacts in these countries. Finally, the Center's marketing staff will develop promotional material that can be translated and sent abroad.

Foreign Companies with Facilities in the U.S.

Foreign companies with facilities in the U.S. need employees that can help produce their products as well as install, maintain, and service them. While they may have been able to obtain U.S. employees to perform many of the more routine functions, in many cases, language and cultural problems have prevented the company from using higher level technicians.

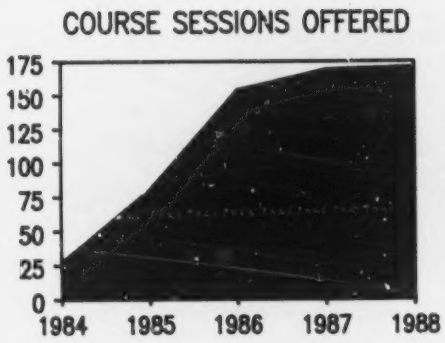
The marketing effort with these companies will begin with a survey to more precisely define their needs. Once their needs are better defined specific programs will be developed and will be marketed

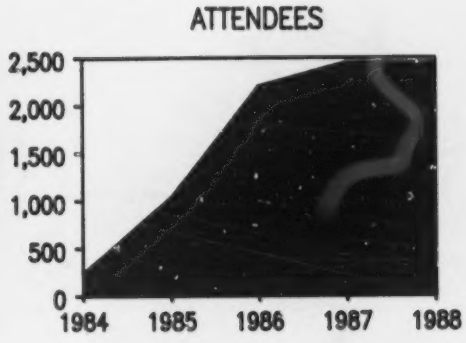
to these companies. These efforts will be closely coordinated with appropriate state and Federal programs at meeting the technical training needs of foreign investors.

Training Organizations

Many training organizations do not have the range of resources they need to address the needs of many potential clients. As a result they miss business opportunities and training needs go unmet.

The Center will work closely with these organizations to help them to provide a more complete range of service to a broader range of clients.





Programs

The Center will develop six program fields within which individual courses, workshops and conferences may be designed and conducted:

- Technical Training Program
- Train-the-Trainer Program
- Executive Program
- General Management Program
- Foreign Sales/Marketing Program
- Specialized Group Programs

To ensure effectiveness, the programs will be developed within a comprehensive skills development process. This systematic means will direct the effort toward equipping people to do a job within a specified work environment. The system will encompass the process of planning programs with performance objectives, based on analysis of the job to be performed. Modern techniques will be used to develop job tasks, develop performance-based testing, design and validate instruction and to evaluate the programs.

The education and training programs will be supported by two service-oriented program areas. These are: the Training Research and Development Program and the Training Information Exchange Program.

Education and Training Programs

The Technical Training Program will represent a substantial portion of the Center's activities. Courses will be designed to the needs of clients. The planning for and conduct of this type training will often extend over a long period of time and may include individual operational training, maintenance training, team or crew training and train-the-trainer courses. Markets include developing countries in cooperation with Federal agencies or private business; and U.S. businesses who are planning expansion into the international market.

The Train-the-Trainer Program will provide courses designed to teach trainers how to design and conduct technical training programs. These courses could be a part of a larger technical training program designed specifically for a client, or independent courses designed to assist organizations in assimilating new technology into the workplace. Courses will be customized to the needs of the user. This will be accomplished through coordination of the needs analysis unit and the program directors in conjunction with the various support systems of the Center. Under certain circumstances, the Research Director would be involved to provide expertise in formulating unique or innovative solutions to specialty training needs of customers. Markets include developing countries in cooperation with federal agencies, and U.S. businesses who are improving productivity through the use of training.

The General Management Program will provide middle managers with the full range of instruction necessary to conduct business in the foreign environment. This may include courses or lectures from trainers in the Executive Program or the Sales/Marketing Program. Since this is typically the level of manager who is sent abroad to oversee project development, the cultural adaptation lectures would be utilized. Additionally, this person would likely serve as liaison between the home corporation and the targeted nation. Thus, a series of courses would be provided on issues such as the foreign labor market, competition from other businesses and the "power structure" of the targeted foreign nation.

The Executive Program will be directed toward helping executives develop an understanding of the impact and the use of training in the international business environment. The program would explain why training is important when international expansion is planned and what type of information should be gathered before sound decisions can be made. It would also show the executive how to develop an action plan for meeting training needs. Finally, it would discuss how the Center can assist in developing the program. Markets include senior executives of small firms, division and vice presidential level executives from multinational firms and representatives from foreign businesses.

The Foreign Sales/Marketing Program will assist businesses in applying sales and marketing skills to the special conditions of foreign markets. Special emphasis will be placed on determining potential competition in foreign markets. Potential users include marketing and sales people from U.S. companies doing business abroad.

The Specialized Group Programs will combine features of other center programs to provide a comprehensive training package to businesses having a wide range of training needs. This package will be especially pertinent to developing countries. In many cases Specialized Group Programs will require that training teams work out of a foreign base, as opposed to in-house or locally.

Cultural Integration

In all training programs, there will be the opportunity for participants to broaden their understanding of the cultural environment targeted for business transactions. This may involve instruction of foreign managers on U.S. issues, or of U.S. managers seeking to conduct business abroad. The purpose of this instruction would be to improve the participant's ability to work in a foreign environment. A variety of specialists would be available to the Center to accomplish this objective. Specifically, the courses would cover such issues as political risks, religious values, cultural norms, social systems, demographic statistics, ideological orientations, systems of governance, regional stability and past experiences with business transactions in a particular country. Language courses would be available to acquaint the participant with the skills needed to work in the targeted foreign nation.

Service Programs

The Training Technology and Development Service Program will facilitate research in training techniques, methodologies, philosophies and applications. Two orientations are suggested. First, findings from the research will update state-of-the-art concepts of training. This information will be available to users of the Center and may be offered for sale as parts of training packages to other training organizations. Second, the Research Program will assist other in-house programs in training users with innovative or unique solutions to training needs.

The Information Exchange Program will provide services to clients through the collection and distribution of information on technical training courses and resources available to conduct technical training.

Example of the Services to be Provided

While much work remains to be done before the programs discussed in the preceding paragraphs will be operational, it is possible to discuss how these programs would be integrated to meet the needs

of some specific clients. The following example illustrates how the Center would be involved with a U.S. company attempting to expand into the international market.

U.S. Company Expansion to International Market

At least two substantial hurdles must be overcome by new-to-export and new-to-market companies. First, company executives must understand the business and cultural environment of the targeted countries. Second, line managers, technicians and salespeople must be able to train their counterparts in the foreign countries to handle warranty and repair work, marketing and sales. This example involves a company targeting three western European countries as a test market for its product.

The process might begin in several ways. First, the Center could become involved as a result of a proposal in response to an RFP. Secondly, if the Center evolves to the stage of becoming a recognized facility for international training, it is probable that a continual exchange would exist between professionals at the Center and executives of user corporations. In this case, the executives might begin the process by calling the Center to ask about how the company could achieve certain results through use of the Center's programs. The Center's Marketing Manager for U.S. Companies would provide the executive with information on programs currently available at the Center and the people providing them. If this is the company's initial attempt at exporting, the company's officers may wish to take one of the Center's general executive or management courses. These short courses, offered in-house periodically, would provide basic information on some of the problems in operating in a foreign country and how to take steps to avoid or reduce the problems. A more indepth look would also be given to Center programs which could assist in expansion efforts. If the company has experience in exports, these basic courses would probably be by-passed.

At this point, the Needs Analysis team would meet with the company officers to determine precise training needs and to determine strengths and weaknesses. The Research Director would be brought in to suggest innovative or unique approaches. The Program Director and his line managers would begin work on assembling specialized courses designed for the company, probably including a detailed analysis of the three European countries from a business, cultural and language sense. Courses would be designed to assist the company's line managers in training their foreign counterparts on product maintenance and warranty, and its sales managers on how to train for sales or marketing work.

The Resource Computer Network would be accessed to assemble a training team. Available information on training in the specific area of computer engineering technology would be obtained from the Curriculum Development Reference System. Finally, the Project Manager would arrange the logistics and time frame of the training to take place.

EXAMPLE TRAINING PROGRAM FOR COMPANY XYZ

COST ANALYSIS

	Amount
REVENUE:	
Basic courses**-	
Executive Training (2 people/1.5 days) @$800	$ 1,600
General Management (4 people/3 days) @$350	1,400
Foreign Sales/Marketing (4 people/4 days) @$750	3,000
	6,000
Specialized courses-	
Technical Training (15 people/5 days @$1,100)	16,500
Train Trainers (5 people/3 days @$1,210)	6,050
	22,550
Total revenue	$28,550
EXPENSES FOR SPECIAL COURSES:	
Professional services-	
Instructors fees (development and training)	$ 6,950
Instructor expenses	2,200
	9,150
Facility Rental	3,245
Material and Other	3,800
Total Expenses	$16,195

** Basic Courses will be offered on a regular basis. Expenses for these courses are not indicated since more than one company will be taking them at a time.

This example illustrates the costs that might be incurred by a company that contracts with the Center to develop a series of courses to assist in developing its foreign markets. This example contract would have an overall cost of $28,550 which could be spread over an 18 to 24-month period.

The first three courses would likely be standard courses and the company would be charged a fee per attendee. In this example, the fee for the executive course is $800 per person. The fee for the general management course is $350 per person. The fee for the foreign sales/marketing course is $750 per person. At this point

the company would have a total of $6,000 invested and should be in a position to make some sound business decisions about moving forward.

The Technical Training Course would be specifically tailored for the company and would cost approximately $16,500. The Trainers Course would cost about $6,000.

The major expense for the technical courses would be the professional services involved in developing and presenting the courses. In this example, professional services incurred in course development and presentation of the Technical Training and Trainer Training Courses totals $6,950.

The second major cost is the facility rental. The program as outlined would require the use of specialty classrooms and laboratory space. Eight days of rent on this facility would cost approximately $3,245. Additionally, $3,800 has been assessed to include office and lab supplies, equipment rental, transportation shuttling and miscellaneous expenses.

ORGANIZATION ANALYSIS

Critical to the success of any business is an efficient infrastructure that makes maximum use of internal and external resources. This is particularly true in founding an organization of the potential magnitude of the World Technology Center.

Operations must run smoothly from an internal perspective to ensure that resource coordination is efficient and the subsequent training is timely and of high quality. The following organizational structure and functions have been suggested to utilize available resources and maximize use of Center personnel (see chart on following page).

Board of Trustees

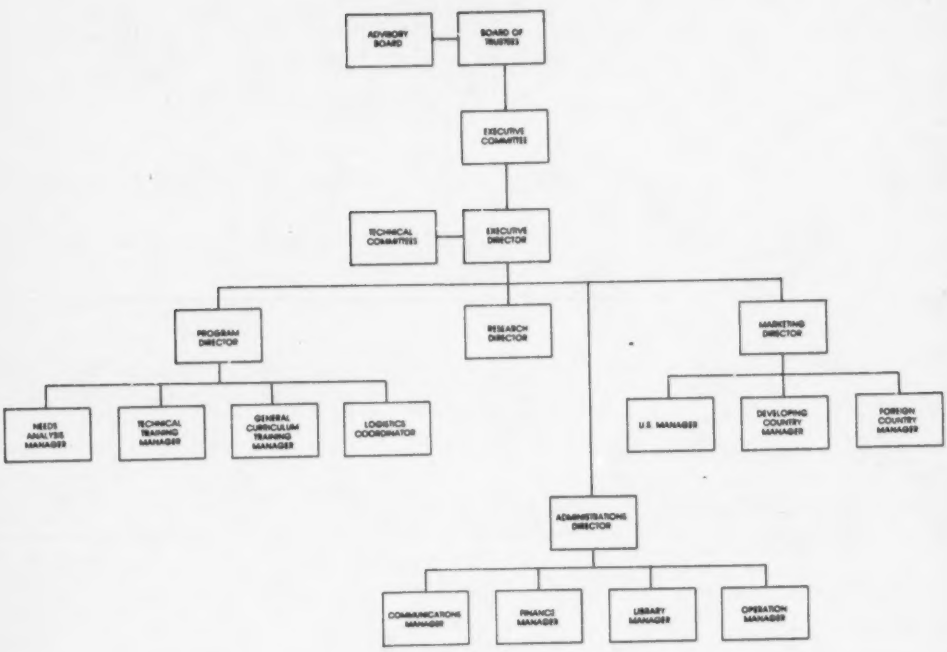
A Board of Trustees will be established to provide leadership and guidance in ensuring an efficient, effective training center in sound financial health. The Board will have certain real powers and functional responsibilities relative to the operation of the Center. Included in these responsibilities will be the authority to establish certain policies, set budget guidelines and represent the Center at periodic retreats or business gatherings.

The Board will be composed of senior corporate and academic individuals who have distinguished themselves in a wide variety of fields. In addition to regular annual meetings, the Board would have routine responsibilities to handle on a periodic basis.

Executive Committee

An Executive Committee will be established as a subgroup of the Board of Trustees to assist in policy development and Center operations. The Executive Director will also be a member of the Executive Committee. This group will work to ensure maximum productivity and efficiency of the Center's training operations. These individuals will have a broad range of expertise in law, management, financial planning, program development, etc. The Executive Committee will be empowered to handle policy decisions not needing approval of the full Board of Trustees or issues of immediate importance. Meetings of the Executive Committee will be regularly scheduled or will take place at the call of the Chairman, as needed (Note: an Executive Committee was established in June 1983 and has been overseeing program development and formulation of a development plan).

WORLD TECHNOLOGY CENTER
ORGANIZATION CHART



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Advisory Board

An Advisory Board will be established to ensure input from business, academic and government. This Board will be comprised of ten to fifteen individuals representing:

- Government
- Industry
- Military
- Service delivery
- Small business
- High technology
- Banking
- Finance
- Training development

Appointment to the Board will recognize the members' contributions to the community-at-large or, in some cases, contributions to the implementation of the World Technology Center.

Advisory Committees

Several Advisory Committees will be appointed to assist the Center in program development and operations. Members of these committees will possess expertise in a specialized area and will assist the Center in formulation of policy and operations in those areas.

Executive Director

The Executive Director will be selected by the Executive Committee and approved by the Board of Trustees. This individual will serve at the pleasure of the Executive Committee and will be remunerated by a yearly salary set by the Committee. The Executive Director will manage and direct the activities of the Center, serve on the Executive Committee and act as the Center's liaison to the Advisory Board. In addition to supervising the daily activities of the Center, the Executive Director will be expected to maintain a close working relationship with the business, academic and government communities.

Program Director

The Program Director will be the individual in charge of planning and executing training programs. The Program Director will have four line managers administering the complex training activities of the Center. A Needs Analysis Manager will head in-house and external teams formed on an ad hoc basis to determine specific training needs of a targeted business or customer. A Technical Training Manager will direct training activities related to the Technician and Trainer Courses (discussed in the previous section). A General Curriculum Training Manager will direct training activities of the Executive Courses, the Management Courses, and Foreign Sales/Marketing Courses. Both training managers will work closely with the Needs Analysis Manager in developing programs and will utilize the resource network, client and prospect network and the curriculum development reference

system to match client needs with external training resources. A Program Manager will handle logistics and program coordination in conjunction with the other line managers.

Marketing Director

The Marketing Director will aim at making the Center widely known in Georgia, nationally and in foreign countries. This will involve direct mail campaigns, telephone and personal discussions with potential clients. The Marketing Director will supervise the activities of three line managers who will assist in the marketing effort. A U.S. Company Manager will head United States marketing operations and will focus on assisting U.S. companies in the process of considering or implementing expansion into international markets. A Developing Country Manager will work with world development organizations, U.S. federal agencies, and private foundations, as well as with developing countries to identify training needs in those countries and establish communications with them. A Foreign Company Manager will work with foreign countries other than developing countries to coordinate marketing efforts, and will focus on existing activities as well as expansion potential. This person will also work with state government programs aimed at bringing foreign companies to Georgia.

Research Director

The Research Director will manage programs in the Center designed to formulate new strategies and philosophies in the field of training and facilitate the adoption of these techniques into the Center's other training services. This person will hold seminars and meetings of training specialists and prominent individuals in the field of training and conduct personal research to produce state-of-the-art concepts in training techniques. These activities will be supported by doctoral fellowships at the Center in cooperation with academic institutions.

Administration Director

The Administration Director will manage the support systems of the Center. Four line managers will report to this director. The Communications Manager will establish and maintain telecommunications equipment (e.g., telex, telecopier, electronic mail, and at some point, teleconferencing capabilities). The Finance Manager will handle bookkeeping and accounting systems. The Library Manager will manage a technical and cultural/language reference system and the curriculum reference systems as well as direct microfiche and computer retrieval operations. The Operations Manager will handle the maintenance and daily operation of the Center, including housing, restaurant and class/lab/workshop arrangements.

MANAGEMENT SYSTEMS ANALYSIS

All organizations require systems and procedures to function in an efficient and effective manner. In any business, the efficiency of production is a function of management. One role of the Center's management will be to supervise the functional programs previously described.

The other function is to maintain and utilize a support infrastructure from which the line programs may draw information pertinent to production. Many of these services will be integrated into a central computer network from which there will be both internal and external retrieval capabilities. The support systems of the Center will be necessary for the maintenance of a high quality product and will provide one means by which the facility will become a regional base for skills development.

Included in the management systems will be:

- A resource network
- A client and prospect networks
- A communications system
- An operations management structure
- A reference and library system
- A curriculum development reference function
- A facilities management system

Resource Network

The ability of the Center to coordinate effectively a large volume of training activities and to produce a high quality and timely training service will in part rely upon its resource network. The Center will develop a comprehensive compilation of all training resources available for contractual work in Georgia and nationally. Examples might include a professor at Southern Tech who conducts contract training in apparel manufacturing, or a department at Georgia Tech conducting training in pump maintenance in developing nations. This list would also include private businesses who conduct specialty training.

Client and Prospect Networks

An activity complementing the Resource Network will be the Center's Client and Prospect Network. Through a compilation of potential clients and prospects in targeted cities and countries, the Center will be able to effectively seek new business opportunities. For example, the Client and Prospect Network would likely include a manufacturing company CEO in North Carolina as well as the Minister of Economic Development in Nigeria. The data base would also compile representatives of government and private organizations who could assist in linking potential business to the Center.

Communications Systems

The communications systems of the Center will assist the management in day-to-day activities and will be available to businesses which use the facility to conduct their affairs. First, the Center would provide electronic mail, telex and telecopier capabilities to allow rapid communications among users, management and potential clients.

Second, at some point in time, teleconferencing capabilities could be provided for business meeting purposes as well as some types of training or training refresher seminars. For example, a trainer might come into the facility to address a technical problem from a manager in another country or another state. The specialist would visually demonstrate how to resolve the problem through diagrams or through actual manual demonstrations with equipment in hand.

Management Systems

An efficient management system encompassing accounting, bookkeeping, personnel, contracts administration and other internal functions will ensure that the Center's programs are well supported.

Reference and Library Systems

The Center will house an extensive reference library on material pertinent to technical and cultural/language training. This material, portions of which will be microfiched or stored in computer files, will be available to management, instructors and users. The Center will also allow access to the material from external data base as deemed appropriate.

Curriculum Develop Reference System

While many of the instructors coming to the Center will bring their own materials, the Center will develop systems to assist instructors with the development of their presentations. This capability will be tied into the reference and library system but will utilize material for training in specific areas of skills development.

While much of the information placed in this system initially will be immediately accepted in training circles as state of the art, the Training Research Program will continually update information as developed. Ultimately, this system should provide comprehensive information available on instruction methodology and philosophy. This information also can be made available through external data base exchange.

Facilities Management System

Any business must have efficient coordination and management of program operations and in-house facilities. Center personnel must be particularly mindful of the operational support necessary to ensure a smooth running organization. This will include administration and maintenance of the facility itself, operation and maintenance of living quarters for visiting instructors and students, and grounds management. Some of these functions might be contracted to specialty firms in the area, but the majority will be maintained in-house.

FACILITY

While it is premature to formulate details relative to the interim or permanent facility, it is important to consider the basic needs of the Center. By projecting the volume of training to be conducted over the next several years, it is possible to estimate the size of the facility and the equipment needed.

Initially, the Center will consist of a relatively small staff whose responsibilities primarily consist of administration, marketing and training coordination. There will be about 30 training sessions in 1984 with some 300 students. It would be impractical from both a financial as well as facility space perspective to occupy a large facility. The interim facility should accommodate about two years of growth. In 1985, there will be 80 training sessions with approximately 1,000 students. Therefore, the interim facility should need about 20,000 square feet of space. The renovation planned in mid-1984 will provide classroom and laboratory space such that core curriculum courses may be initiated.

In 1986, the training needs will have risen to over 100 sessions and growth of about 20% per year thereafter may be anticipated. This will initially require the permanent facility to be about 40,000 square feet with a capability to grow larger as the Center increases in activity. Initially the Center will feature classrooms, workshops, laboratories and administrative space. The technical work space will be highly adaptable to accommodate a wide range of corporate training needs.

Ultimately, it is envisioned that the Center will be a comprehensive training facility complete with dormitories for visiting students, cafeterias, and corporate training annexes owned and operated by outside interests. As training programs increase, a number of training organizations and academic institutions may operate permanent programs in offices located in the facility.

RISK ANALYSIS

To be successful in the long run, an organization must carefully define the risks it faces and work to minimize its negative impact. It must provide this protection without adversely affecting its ability to move aggressively to solve problems and take advantage of opportunities. There is no simple method of dealing with risks but a clear understanding of them will increase the likelihood that they can be dealt with effectively.

There are several risks that could inhibit successful implementation and operation of the Center:

- Business organizations and academic institutions might view the Center's programs as competing with their own operations.
- An economic downturn could seriously limit training dollars from users and funding from government sources.
- If the Center attempts to serve too broad a market, its ability to provide a high quality training product might be hampered.

Sense of Competition

Starting a training center of this magnitude could create an impression of competition among training institutions and individual trainers. While this may be an inevitable reaction among individuals and organizations which conduct training for a living, it is anticipated that competitive tension will be largely dispelled when the Center is operational.

The rationale of the Center is to play a coordinating role in bringing the area's training resources together. It will also be a nonprofit organization. The great majority of training will be conducted by area training individuals and organizations. Even training conducted in-house will largely be directed by individuals contacted from outside the Center.

Revenue projections indicate that significant financial benefits would be realized by area training resources for their participation in the Center's activities. Specifically, it is anticipated that approximately 60% of the fees paid for contractual services would be paid to the state university system with the remainder going to private colleges and corporate training resources. In any case, the Center is designed to increase the base of training activities in external organizations rather than create competition for existing business.

Economic Downturn

Major fluctuations in the national economy could affect the productivity of the World Technology Center. During an economic downturn, for example, most companies' resources are concentrated on production, while financial resources for training are often reduced. Initially, this could prove to be beneficial to the Center's operation as these companies might turn to contractual means to conduct training. Sustained economic problems, however, could further deplete operating capital and eliminate altogether the ability to provide training.

Additionally, it is anticipated that the Center would receive grants from the Federal government and private foundations on a regular basis to pay for training of personnel from developing nations. An economic downturn would probably reduce these grants and the Center's ability to accomodate the training needs of many developing nations.

While national economic problems will undoubtedly occur at some point during the next 20 years, two factors would favor the Center's continued operation. First, it would require a substantial, sustained downturn to permanently inhibit the Center's ability to train. Second, after the Center has achieved sustained operations, it is probable that the diversity of activity from both foreign and domestic sources would provide a buffer to most fluctuations of the economy.

Scope of Services

Substantial commercial training activities are currently being conducted in Georgia and throughout the nation. It is important that the Center initiate and maintain a scope of services in a relatively restricted range of activity for three reasons:

- Specialization will lead to higher effectiveness.
- Coordinating training in an unlimited range of training activities would be difficult from a logistical standpoint.
- The basic rationale for the Center is to conduct training in markets where there has been minimal activity in the past. Attempting to train in executive management and sales for the domestic market for example would be difficult because there is already substantial training going on in that area. The Center will attempt to work in the relatively new market of international business training, particularly in skills development for developing nations.

APPENDIX I
FINANCIAL PROJECTIONS

WORLD TECHNOLOGY CENTER

PRO FORMA BALANCE SHEETS

COMBINED OPERATING AND PROPERTY FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1983 - 1988

	1983	1984	1985	1986	1987	1988
ASSETS:						
Current-						
Cash	$168,000	$ 15,000	$ 4,000	$ 8,000	$ 105,000	$ 220,000
Accounts receivable	-	20,000	40,000	92,000	122,000	162,000
Total current assets	168,000	35,000	44,000	100,000	227,000	382,000
Property, furniture and equipment-						
Land	-	-	-	100,000	100,000	100,000
Building	-	-	-	2,000,000	2,000,000	2,000,000
Furniture and equipment	7,000	82,000	143,000	643,000	693,000	793,000
Leasehold improvements	-	150,000	200,000	200,000	200,000	200,000
Less- Accumulated depreciation and amortization	1,000	47,000	116,000	351,000	597,000	862,000
Net property, furniture and equipment	6,000	185,000	227,000	2,592,000	2,396,000	2,231,000
TOTAL ASSETS	$174,000	$220,000	$271,000	$2,692,000	$2,623,000	$2,613,000
LIABILITIES AND FUND BALANCES:						
Current-						
Accounts payable	$ -	$ 45,000	$ 45,000	$ 50,000	$ 50,000	$ 50,000
Accrued expenses	-	51,000	53,000	60,000	60,000	60,000
Current portion of bonds payable	-	-	-	224,000	224,000	224,000
Total current liabilities	-	96,000	98,000	334,000	334,000	334,000
Bonds payable	-	-	-	1,909,000	1,685,000	1,461,000
Fund balances	174,000	124,000	173,000	449,000	604,000	818,000
TOTAL LIABILITIES AND FUND BALANCES	$174,000	$220,000	$271,000	$2,692,000	$2,623,000	$2,613,000

WORLD TECHNOLOGY CENTER

PRO FORMA STATEMENTS OF SUPPORT, REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES

COMBINED OPERATING AND PROPERTY FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1983 - 1988

	1983	1984	1985	1986	1987	1988
SUPPORT AND REVENUE:						
Support-						
Government grants	$200,000	$300,000	$ 300,000	$ 100,000	$ -	$ -
Private contributions	-	300,000	300,000	200,000	-	-
Total support	200,000	600,000	600,000	300,000	-	-
Program revenue	-	273,000	1,230,000	2,890,000	3,553,000	3,966,000
Total support and revenue	200,000	873,000	1,830,000	3,190,000	3,553,000	3,966,000
EXPENSES:						
Direct program expenses-						
Educational contract fees	-	21,000	67,000	133,000	159,000	175,000
Facilities rental	-	46,000	77,000	152,000	174,000	191,000
Travel	-	24,000	74,000	155,000	185,000	203,000
Specialized group contracts	-	45,000	198,000	454,000	598,000	703,000
Other	-	53,000	154,000	322,000	385,000	423,000
Total direct program expenses	-	189,000	570,000	1,216,000	1,501,000	1,695,000
Course development	-	53,000	96,000	30,000	76,000	36,000
Total program expenses	-	242,000	666,000	1,246,000	1,577,000	1,731,000
Supporting services-						
Programs	-	196,000	320,000	368,000	423,000	487,000
Marketing	-	188,000	305,000	351,000	403,000	464,000
Administration	26,000	259,000	409,000	856,000	887,000	947,000
Research	-	38,000	81,000	93,000	108,000	123,000
Total supporting services	26,000	681,000	1,115,000	1,668,000	1,821,000	2,021,000
Total expenses	26,000	923,000	1,781,000	2,914,000	3,398,000	3,752,000
EXCESS (DEFICIENCY) OF SUPPORT AND REVENUE OVER EXPENSES	174,000	(50,000)	49,000	276,000	155,000	214,000
FUND BALANCES AT BEGINNING OF YEAR	-	174,000	124,000	173,000	449,000	604,000
FUND BALANCES AT END OF YEAR	$174,000	$124,000	$ 173,000	$ 449,000	$ 604,000	$ 818,000

WORLD TECHNOLOGY CENTER

PRO FORMA STATEMENT OF CHANGES IN FINANCIAL POSITION -- CASH BASIS

COMBINED OPERATING AND PROPERTY FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1983 - 1988

(000's Omitted)

	1983	1984	1985	1986	1987	1988
SOURCES:						
Excess (deficiency) of support and revenue over expenses	$174	$(50)	$ 49	$ 276	$155	$214
Depreciation	1	46	69	235	246	265
Increase in liabilities	-	96	2	2,257	-	-
Total sources	175	92	120	2,768	401	479
USES:						
Purchase of furniture and equipment	7	75	61	500	50	100
Purchase of leasehold improvements	-	150	50	-	-	-
Purchase of land	-	-	-	100	-	-
Purchase of building	-	-	-	2,000	-	-
Payment of bonds payable	-	-	-	112	224	224
Increase in accounts receivable	-	20	20	52	30	40
Total uses	7	245	131	2,764	304	364
INCREASE (DECREASE) IN CASH	168	(153)	(11)	4	97	115
BALANCE - JANUARY 1	-	168	15	4	8	105
BALANCE - DECEMBER 31	$168	$ 15	$ 4	$ 8	$105	$220

APPENDIX II
FINANCIAL PROJECTION ASSUMPTIONS

Financial Projection Assumptions

Financial projections as to program revenues and expenses have been prepared on the basis of the assumptions outlined in this appendix. These assumptions were derived as a result of interviews and discussions with experienced professionals involved in training in businesses and academic institutions and reviews of current training and eductional activity.

Course Type	1984	1985	1986	1987	1988
TECHNICAL TRAINING:					
General-					
Number of courses offered	3	10	15	30	35
Number of course sessions conducted/ year	10	20	40	45	45
Average course length (days)	5	5	5	5	5
Revenues-					
Average number of attendees/course	15	25	25	25	25
Average charge per attendee	$1,100	$1,210	$1,331	$1,464	$1,611
Expenses-					
Average instructor fees per course	963	1,059	1,165	1,281	1,409
Average facility rental per course	2,750	908	998	1,098	1,208
Instructors' expenses	1,375	1,513	1,664	1,830	2,013
Course development- $2,000 for the first course day, $1,000 for each additional day					
Other expenses	2,750	3,025	3,328	3,660	4,026

NOTE:
Course revenues and expenses (except for course development) increase at an annual rate of 10%.

Decrease in facility rental occurs in 1985 because of the renovation of temporary facilities at which some course sessions will be conducted.

Course Type	1984	1985	1986	1987	1988
TRAIN THE TRAINER:					
General-					
Number of courses offered	3	7	10	15	18
Number of course sessions conducted/ year	6	15	30	35	35
Average course length (days)	3	3	3	3	3
Revenues-					
Average number of attendees/course	5	5	5	5	5
Average charge per attendee	$1,210	$1,331	$1,464	$1,611	$1,772
Expenses-					
Average instructor fees per course	990	1,089	1,198	1,318	1,449
Average facility rental per course	495	272	299	329	362
Instructors' expenses per course	825	908	998	1,098	1,208
Course development- $2,000 for the first course day, $1,000 for each additional day					
Other expenses	1,050	1,815	1,997	2,196	2,416

NOTE:
Course revenues and expenses (except for course development) increase at an annual rate of 10%.

Decrease in facility rental occurs in 1985 because of the renovation of temporary facilities at which some course sessions will be conducted.

Course Type	1984	1985	1986	1987	1988
EXECUTIVE:					
General-					
Number of courses offered	1	2	2	2	2
Number of course sessions conducted/ year	1	4	4	4	4
Average course length (days)	1.5	1.5	1.5	1.5	1.5
Revenues-					
Average number of attendees/course	8	12	16	20	20
Average charge per attendee	$ 800	$ 880	$ 968	$1,065	$1,171
Expenses-					
Average instructor fees per course	2,250	2,475	2,723	2,995	3,294
Average facility rental per course	2,250	2,475	2,723	2,995	3,294
Instructors' expenses per course	750	825	908	998	1,098
Course development- $4,000 for the first course day, $1,500 for each additional day					
Other expenses	1,500	1,650	1,815	1,997	2,196

NOTE:
Course revenues and expenses (except for course development) increase at an annual rate of 10%.

Course Type	1984	1985	1986	1987	1988
GENERAL MANAGEMENT:					
General-					
Number of courses offered	2	4	6	10	12
Number of course sessions conducted/ year	5	15	25	25	25
Average course length (days)	3	3	3	3	3
Revenues-					
Average number of attendees/course	10	18	25	25	25
Average charge per attendee	$ 350	$ 385	$ 424	$ 466	$ 512
Expenses-					
Average instructor fees per course	675	743	817	898	988
Average facility rental per course	2,250	1,856	2,042	2,246	2,471
Instructors' expenses per course	900	990	1,089	1,198	1,318
Course development - $3,000 for the first course day, $1,000 for each additional day					
Other expenses	2,250	2,475	2,723	2,995	3,294

NOTE:
Course revenues and expenses (except for course development) increase at an annual rate of 10%.

Decrease in facility rental occurs in 1985 because of the renovation of temporary facilities at which some course sessions will be conducted.

Course Type	1984	1985	1986	1987	1988
FOREIGN SALES/MARKETING:					
General-					
Number of courses offered	2	8	10	15	20
Number of course sessions conducted/ year	2	14	30	30	30
Average course length (days)	3	3	3	3	3
Revenue-					
Average number of attendees/course	6	10	15	15	15
Average charge per attendee	$ 750	$ 825	$ 908	$ 998	$1,098
Expenses-					
Average instructor fees per course	525	578	635	699	769
Average facility rental per course	1,500	1,238	1,361	1,497	1,647
Instructors' expenses	750	825	908	998	1,098
Course development- $2,000 for the first course day, $1,000 for each additional day					
Other expenses	1,500	1,650	1,815	1,997	2,196

NOTE:
Course revenues and expenses (except for course development) increase at an annual rate of 10%.

Decrease in facility rental occurs in 1985 because of the renovation of temporary facilities at which some course sessions will be conducted.

Course Type	1984	1985	1986	1987	1988
SPECIALIZED GROUP PROGRAMS:					
Number of courses/year	3	12	25	30	32
Average revenue/course	$22,000	$22,000	$24,200	$26,620	$29,282
Average expense/course	15,000	16,500	18,150	19,965	21,961

APPENDIX III
ASSESSMENT OF INDUSTRIAL TRAINING IN DEVELOPING COUNTRIES

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CONCLUSION

We are pleased to submit the attached brief research paper on the current status of industrial training in developing countries. On the basis of our findings, we believe that the proposed Georgia World Technology Center can be most effective by pursuing the following recommended courses of action:

1. Due to the lack of clear-cut training policies in the developing countries, it is necessary that the WTC create a needs assessment group to analyze the training requirements of specific target countries. Initially, we recommend that the Center focus on the countries of Cameroon, Ghana, Kenya and Nigeria in Africa; the Philippines, South Korea, India and Indonesia in Asia; and Brazil, Equador, Panama and Peru in Latin America.

   This group should develop concrete policy recommendations which would help the national authorities of these countries crystallize their training directions with the end in view of being more responsive to local economic needs.

2. The Center should target cross-cultural training packages designed for multinational companies. There is a need to internalize training materials and methods to suit the particular cultural milieu of the developing country.

   As a starting point, the Center should prepare intensive language training programs for multinational company managers being assigned to developing countries.

3. Considering the number of training-related organizations and programs all over the world, there is a need for an information clearing house which will not only facilitate the gathering and exchange of information but will also design and formulate innovative cross-culturally sensitive training materials and methods.

4. The Center should expand its training of trainers program by assisting in the development of a pool of training experts both here and on-site who are not only technically superior but cross-culturally flexible. The "train the trainer" component of WTC should be a major unit within the Center.

5. In the light of the failure of some of the training and training-related programs of international agences, it is recommended that the Center discuss with these bodies the possibility of a joint venture relationship in which WTC would develop the training components of specific development projects.

6. Since the feedback system on the effectiveness of training programs seems to be non-existent, the Center should develop and implement a section which focuses on the evaluation of training programs previously undertaken in order to identify areas of improvement.

7. Considering the rate of industrialization occuring in the more advanced developing contries, the Center should target its management training to middle management.

8. Since it is expected that local technical institutes will be increasingly utilized by industry, the Center should prepare technical training programs compatible with employment requirements. It should also make representations with sponsoring agencies to provide modern facilities in order to enhance the image of technical education.

ASSESSMENT OF INDUSTRIAL TRAINING IN DEVELOPING COUNTRIES

I. INTRODUCTION

The ability of a lesser developed country to show progress and upgrade the life style of its citizens is often largely a function of its ability to maintain a skilled labor force. Training is so pervasive an issue, that any discussion of a developing country's potential must be distinctly tied to a realistic assessment of the skills development level and how these skills complement the technical requirements for exploiting the country's natural resources.

While training activities generally cover all categories of occupation, the largest volume of training in developing countries is focused on:

- Agricultural and rural development,
- Industrial training, and
- Public administration management.

This brief study will primarily concern itself with industrial training.

II. TYPES OF INDUSTRIAL TRAINING

In its study of the training practices of multinational companies, the International Labor Organization (ILO) classifies industrial training into the following categories:

A. Programs for the Semiskilled and Unskilled Workers

These cover introductory and safety training and some elements of on-the-job training for workers already employed in industrial concerns.

B. Programs for Skilled Workers

These are usually conducted in special training workshops, the most widespread of which is apprenticeship, lasting from three to four years. These programs are generally supervised by national training authorities.

C. Programs for Technicians

These include specific fields such as quality control, work study and programming, maintenance, electronics and application of new technologies. The multinationals undertake these training activities on their own, considering that most technical and vocational education authorities in developing countries are still in the formative stages of developing an effective training curriculum responsive to the needs of the industrial sector.

D. Managerial Programs

Activities under this category include management development consisting of short internal and external courses and seminars on industrial relations, electronic data processing, organization, taxation, accounting, marketing and communication skills. It is at this level that the multinational enterprises concentrate their training activities. Apparently, this is due to the fact that there is a current shortage of managerial and professional manpower in developing countries.

E. Training of Trainers

One area of training which has not been given adequate attention is the so-called "training of trainers". The Organization for Economic Cooperation and Development (OECD) has identified this type of training as a very important activity. It has recommended to its member countries the channeling of a portion of their technical assistance to this specific void in training.

III. INVOLVEMENT OF LOCAL AUTHORITIES IN MANPOWER TRAINING

Available literature shows that only a small number of developing countries have formally adopted training policies by law or by some other forms of government directives. Despite the diversity of situations in developing countries, there are only two kinds of local bodies which contribute to their training efforts.

The implementation of training policy rests upon the government's ministry of education which usually has a special group in charge of technical and vocational education. In countries which recently adopted policies to strengthen technical and vocational education, structural innovations have been or are currently being made.

One specific objective of these changes is to design technical education programs as a preparation for graduates to enter the workforce with the possibility of seeking and profiting from continuing education and training at a later date.

Formal technical and vocational education is handled by universities and technical institutes. A large assortment of informal occupational training programs such as nonfarm artisan,

crafts and skill development are undertaken by provincial or state schools and institutes. Only a few countries have national manpower training institutes.

IV. ASSISTANCE FOR INTERNATIONAL ORGANIZATIONS

There are a number of international and regional agencies which have developed, implemented and funded various programs aimed at uplifting the training skills levels of developing countries. In terms of extent of geographical coverage and expenditure budget, the major agencies are the Agency for International Development (AID), the World Bank (WB), the International Development Association (IDA), the Organization for Economic Cooperation and Development (OECD), the United Nations Development Program (UNDP), the International Labor Organization (ILO) and various multinational enterprises (MNE's).

A. Agency for International Development (AID)

The AID has an extensive geographical network operating in 78 countries. Its estimated education-related budget for fiscal year 1983 is U.S. $106.713 million which is about one percent (1%) of its total worldwide commitment for the year. It should be noted that substantial other monies may be available for training under the overall AID budget of $10 billion. About 38% of its educational "soft" loans are accounted for by Latin American and Carribean countries. Activities in Latin America financed under this account will continue to focus primarily on relieving critical shortages of managers, administrators, technicians and subprofessionals in both the public and private sectors. This will be done through the establishment of industrial training institutes, vocational training and the construction of small scale rural infrastructure projects. In Africa, the projects will focus on development administration and technical skills training.

The impetus on Asia will be on the development of training of trainers programs, administration and management capabilities training programs, improvement of scientific, technical and vocational education and the provision of educational support resources.

While the bulk of AID's funding is generally geared to military-related and direct economic assistance programs, a significant portion of the budget will be spent for the training and education components of the above mentioned activities. These ongoing projects include conservation of natural resources, agricultural education, promotion of industrial activities, improvement of rural water systems, technology transfer and technical assistance to small businesses.

B. World Bank (WB)

Education and training related activities of the World Bank are part of its technical assistance program. Unlike most bilateral and multilateral agencies, WB's technical assistance comes in the form of long-term loans rather than grants. The Bank considers financing technical assistance projects only when there is no alternative financing available for a targeted development project, particularly from the UNDP.

In fiscal year 1982, its educational budget reached U.S. $89.7 million or 8% of the total technical assistance fund. About 63% of this amount was earmarked for various Asian countries.

The educational fund is spent mostly for project-related training components which are present in more than half of the Bank's assistance projects. One example of training is aimed at enhancing specialized skills for a particular project by training local personnel in a developing country through professional visits to other countries. It also supports its Economic Development Institute which organizes seminars and short-term courses participated in by middle and senior management people from both the public and private sectors of various countries. The Institute specializes in project analysis and evaluation.

The Bank has also progressively moved from financing the construction of educational facilities to cover curriculum development in various schools and to strengthen management capabilities in public administration and capacity in research, particularly in agriculture.

C. International Development Association (IDA)

An affiliate of the World Bank, the IDA was organized in 1960 to channel concessional resources to the least developed countries. As the "soft" window of WB, it can lend to countries which are deemed uncreditworthy without jeopardizing its own ability to borrow from capital markets. It is also able to make grants to finance industrialization.

While its main concentration is agricultural development, its lending for education has moved away from funding secondary and higher levels to greater emphasis on vocational and technical education.

Its total education budget in fiscal year 1982 was U.S. $460 million which is about 6% of IDA's aggregate funds.

D. Organization for Economic Cooperation and Development (OECD)

Member countries of the OECD which account for the bulk of foreign technical assistance (U.S. $5,249 million in 1981) currently spend

nearly U.S. $600 million in training assistance to developing countries. This amount supports annually about 110,000 individuals throughout the world. Between 1970 and 1978, senior level training appears to be favored over middle management and the bulk of grants continues to be awarded for study and training in donor countries (about 29% in 1979) rather than in home countries.

Three years ago, the OECD redirected its training efforts to emphasize training of middle level personnel and working level personnel. This would be accomplished through in-service and on-the-job training and at national and regional institutions. Training of trainers programs for technical and vocational education would be emphasized to take advantage of its multiplier effect. Moreover, funding priority would be given to the poorest rather than the more advanced of the developing nations.

E. United Nations Development Program (UNDP)

The main channel for technical cooperation in the United Nations system is the UNDP, which administers projects for about 150 countries covering fields such as capital investment stimulation to vocational and professional training.

UNDP's educational activities include setting up technological institutions, technical training and teacher training for primary and secondary education.

In 1981, its total educational budget amounted to U.S. $287.101 million. Counterpart budget for the developing countries totaled U.S. $699.313 million.

F. International Labor Organization (ILO)

While technical cooperation and advisory services constitute the major courses of action, ILO's training component within this sphere of activities has expanded. The organization is actively involved in the identification of vocational training opportunities, processing and exchange of training information on a worldwide basis, implementation of management development programs covering a network of more than 300 management centers, and the conducting of a number of vocational training seminars. It has also entered into new fields of training such as water, sanitation and energy management.

ILO has two training branches. The Vocational Training Branch is responsible for training of workers in all skills while the Management Development Branch handles training of junior, middle and senior management staff.

ILO's headquarter activities are further supported by the International Center for Advanced Technical and Vocational Training in Turin, Italy. The Center conducts seminars on the development of small and medium-sized enterprises and coordinates the

Organization's activities in the field of training of trainers, development of training methodology and information gathering and dissemination.

ILO's technical cooperation budget was U.S. $90.973 million in 1982. About 67% of this fund was given by the UNDP.

F. Multinational Enterprises (MNE)

MNE's are involved in various kinds of training activities where their subsidiaries are located. Most of them cooperate with national and local training efforts and support government policies which uplift the capabilities of industrial workers.

The training needs are usually dictated by the type of production activities of the enterprise and the available manpower resources. The facilities available to the MNE's are:

- Vocational training centers operated by official bodies and private organizations;
- MNE facilities;
- Universities and productivity institutes; and
- International consulting firms.

Training of semiskilled manpower is generally conducted in the developing countries while middle and senior level training are often conducted in the facilities maintained above.

V. CURRENT PROBLEMS IN TRAINING IN DEVELOPING COUNTRIES

Although formal and informal training have gradually improved during the last two decades, they are still beset by "growing pains" typical in any developing country.

A. Inadequate Training Policies

As mentioned earlier, there is only a small number of developing countries with formally adopted training policies. Hence, there are virtually no guidelines on training needs assessment, design and planning of training programs and the monitoring and evaluation of training.

There is some indication, however, towards the development of training policies especially among the countries in Africa. Some Asian countries which have adopted training policies indicate that the hardest task is the integration of training policy with the broader personnel policies of government due to the restrictive role of political institutions and government bureaucracies.

B. Lack of Financial Resources

Limited financial resources with an LDC form a major bottleneck to the improvement of training, particularly in the growth of technical and vocational education. Considering that some countries are not yet able to provide for free compulsory basic education, the budget allocation for technical education comes as a secondary priority. While many countries receive external assistance, the funds are not enough to meet the recurrent expenses needed for the expansion of vocational education. This may be due partly to a general lack of coordination among programs designed to assist the COCs.

C. Divergent Training and Employment Courses

The mix of training activities offered by the different categories of institutions varies a great deal. Only a few of the programs they offer are responsive to the employment needs of the working class. For example, the training given to engineers in many developing countries, although excellent in content, is severely lacking in meeting the basic needs of industry and government. Often, industry finds it best to recruit less educated skilled workers and train them for specific tasks.

D. Inappropriate Orientation of Training Institutions

The apparent misdirection of skills development in the training institutes is further compounded since the training of personnel needed by industry falls primarily on these schools. A review of Philippine and Indian experiences showed that the operating managers of training institutes generally leave the task of evaluating training needs on their training staff who focus more on the academic exercises themselves as opposed to the needs relative to training.

This is attributed mainly to the low experience levels of many of trainers due to the lack of "training of trainers" component in most training programs.

E. Negative Attitude Toward Technical and Vocational Education

Another difficulty is the apparent tendency among the students of technical schools and training centers for skilled students to use their training as a stepping stone to other types of education other than those for which they are intended. Parents, students and even the teachers themselves regard technical education as a "lower form" of higher education rather than a terminal form of middle education. This ironic situation furthers the educational level of the student, but tends to "leap frog" the intended practical application of the skills development.

F. Relationship Between MNE's and Local Industries

While aware of the necessity of adapting their training programs to local needs and requirements, some MNE's are often unfamiliar with the local structures and educational priorities so as to elicit a relevant response from these companies. This is partly because of the relative newness of local training institutes in developing countries.

Not surprisingly, many of the operations of MNE's are capital-intensive and highly mechanized, which require few skilled craftsmen. This is compounded by the presence of very few small urban-intensive enterprises which need a larger proportion of qualified craftsmen.

G. Lack of Middle Managers

Among the various manpower classes, there persists an imbalance at particular levels, notably the middle level personnel. This can be traced to a natural tendency for individuals to want to become senior personnel as opposed to skilled technicians. Moreover, the highly trained skilled workers continue to leave their countries for new work havens such as the Middle East.

H. Transplantation of Western Training Courses

There is a pervasive doubt about the transplantation of western training courses and systems which are based on western philosophies. Governments often overlook the fact that these systems were basically of western origin and not in all respects sufficiently adapted to the real needs of the countries concerned. This has further contributed to the dysfunctions of the existing educational programs and methodologies.

I. Effectiveness of International Agencies

Some of the general limitations of the programs of international agencies include the following:

- Strong tendency for overseas fellowships to be allocated to senior management people.
- Limited effectiveness of training, due partly to the poor utilization of existing training institutions in LDC's.
- Failure to assess training needs in advance.
- Preoccupation with the short-term horizon of project implementation rather than a longer term institutional development.
- Failure to allocate adequate manpower to deal with the various aspects of training programs.

VI. CONCLUSIONS AND POLICY IMPLICATIONS

The problems identified in this paper do not attempt to belittle the significant positive developments in the field of LDC skills development.

There has been a significant expansion in the infrastructure for training during the past two decades. The total number of training facilities has quadrupled. Some older institutions have expanded, most of which obtained assistance from donors.

Additionally, some training institutions have expanded to new modes of training. Most of these developments are caused by the growing interest in the formulation of national training policies in many LDC's.

The primary motivation for this redirection is the structural change occuring in the economies of developing nations. A study of 78 AID-supported countries shows a general pattern of increase in the people's per capital income. The nonagricultural sector of the economy has expanded from an average share of 59% in 1960 to about 68% in 1980. The ratio of nonagriculture labor force has also increased from 25% in 1960 to 39% in 1980. The gap between the shares of the economy's agricultural sector and labor force indicates a wider base for industrial training opportunities. In 1981, a total of 10,542,201 skilled workers existed in 43 AID-supported countries. Most of these skilled personnel come from Asia.

On the basis of the above statistics, the countries of Cameroon, Ghana, Kenya and Nigeria are good markets for training in Africa. The Philippines, South Korea, India and Indonesia, which recorded more than one million each of trained and trainable manpower, are excellent training audiences in Asia. Brazil, Equador, Panama and Peru are the South American contries which offer good opportunities for training expansion.

In anticipation of the changing and expanding needs for training, international agencies will continue to be tapped for support since they reinforce and supplement national efforts in training.

Recognizing this, some adjustments should be made to current thinking on financing training efforts. Generally, these adjustments should focus on more advanced techniques in training, training methods and infrastructural development designs. At the level of local training, the financing organizations should develop a system of feedback from multinational enterprises which are familiar with the day-to-day employment requirements and problems in developing countries.

To minimize the low perception of the value of technical education in LDC's, cooperating agencies should allocate a significant

portion of their resources for the upgrading of technical facilities in order to strengthen technical and vocational education.

Foreign assistance will be better utilized if trainers are sufficiently trained. This can be done by redirecting training fellowships for trainers rather than senior officials. Training for trainers should likewise be accelerated in the more developed among the developing countries because of their acquired expertise.

In addition to the quality of expert personnel being sent by cooperating agencies or multinational companies, these trainers should also undergo some in-depth cultural and language training in order to adapt their specific training skill to the practices of developing countries.

Very often, development projects of agencies fail because of the apparent lack of training components within the program package. Thus, the successful implementation of the project can be assured if the appropriate training needs of the people who will be involved in the project are identified and included.

Finally, there is also a need for sustained generation and exchange of information regarding existing or new training materials, methods and institutions which can be shared by those needing them in developing countries.

Senator BOSCHWITZ. You seem to be on a very constructive path, and we would appreciate hearing from you your progress as you go along.

Now we will turn to Mr. Narayana, who is senior vice president of Norwest Corp., which is one of the, if not the, largest banking organization in our neck of the woods. We welcome you here and ask you for your testimony.

We ask all witnesses, since as the hearing progresses very often there is some repetition, we ask them to abbreviate their testimony, at least to the degree that it is repetitive of earlier testimony, although we want to be sure that you make the points that you have come here quite some distance to make.

STATEMENT OF D. P. (DARIN) NARAYANA, SENIOR VICE PRESIDENT, NORWEST CORP., MINNEAPOLIS, MN

Mr. NARAYANA. Mr. Chairman, thank you very much. We at Norwest own 85 banks, as you know, in seven States. Personally, in my present job, I oversee activities with 3,000 banks that Mr. Draper mentioned earlier. So my perspective is from the standpoint of that job I now have, plus the fact that I was the head of the international department for 14 years. I used to be accused of being the Eximbank "employee" in our bank. Mr. Glick knows that very well.

I will dispense with the written testimony and get to the point very straight. I talked to several bankers in Minnesota and Wisconsin yesterday and also some other bankers in the South, regarding the set-aside program and the pilot program that is being commenced.

No. 1, everybody expresses admiration for the task this committee accomplished, as well as the task Eximbank set for itself. Eximbank is a tremendously professional organization, and we are very proud of that organization. The concerns we have, of course, are the following: Can we reach the small exporters? Can we prompt the commercial banks that have not previously participated in these programs to participate in these programs? How can we act as a catalyst to bring that about?

It must be recognized, Mr. Chairman, that the profits on export financing are very thin to none. It is very cumbersome. Every single export finance transaction I have ever done for small business went past due. Of course, there is more liquidity in the business, and everybody is past due. Therefore, the margins have thinned. The reason we do it, we have done it, and we have done it very well, is that there were collateral benefits from small businesses. Therefore, in communicating that to the smaller commercial banks across the seven States or four States or what have you, you have a uniquely difficult task.

Here is my recommendation. No. 1, that we simplify the application procedure and the claim procedure. Once a claim goes long overdue in being processed, like we have at FCIA now with all the burden they have, a small businessman gets very sour and cannot handle it anymore because he is on a collateralized borrowing basis. Therefore, it is very tough for him to get out from under the

covenants of the bank agreements to spend time on the claim procedures.

The second point we have concern about is that Eximbank is much leaner than some of the better performing private companies in the United States. They do a tremendously big job with a limited staff, and that concerns us in that they seldom lent in the United States to a U.S. exporter. They always lent to the foreign borrower. That is a new area for them, and therefore that is an area that we have some concern about.

The third thing is, most of the smaller financial institutions, as well as the smaller exporters, are more familiar with SBA, but SBA's programs are very cumbersome compared to Eximbank's. There must be a way found to meld those two programs, if at all possible.

The next item you wanted us to comment on is the pilot program as well as the setaside program. I believe it is too early, as Mr. Draper said earlier, to know the impact of those programs. In my opinion, it takes 12 to 18 months from the time you make a small businessman aware of export opportunities to the time it translates into explaining an export order, filing an application, and so forth. We had one application in our bank under this program in the last 6 months, and that is because we promoted it heavily. The other banks in Wisconsin and Minnesota said they had very limited usage of it. But I talked to a banker in the South, in Alabama, and he said that the SBA in Atlanta is staffing itself with a former international banker, and they have done three applications in the last 2 months. That is a very impressive thing.

The other issue that I wanted to comment on, so as not to duplicate what others said, is that instead of focusing on 761 banks in the State of Minnesota, I recommend we focus on 60 banks that are about $50 million in assets size. They have unique networks that operate in Minnesota I am really amazed. Take a city like Marshall, MN. There are 90 banks in a 40-mile radius of Marshall, all of them trended toward that larger bank in Marshall. If we can focus on that larger bank in Marshall, the word gets out much better. Therefore, I recommend to the Senator that when you come to Minnesota, I will be glad to assist in giving the list of the 60 banks. We will invite the CEO's of the 60 banks to meet you and Mr. Draper. Tell them to get into this new business, and "Here is the kind of help that is available." I think that is how we can penetrate the market.

The next point I wanted to make is that we are very sensitive to this in our State. We in the private industry and the State of Minnesota worked awfully hard in structuring the export finance agency in our State. We put a lot of time into this. To us, it is very surprising that the Eximbank does not support it, the delegated authority. That is right, what Mr. Lam said. I do not want to get confrontational on the issue, but I want to put forth my point of view of our corporation.

We have two bankers on the board of that agency, as well as employees of the agency being bankers. It is a very unique organization. I met with 130 international bankers at the Bankers Association for Foreign Trade, of which I was a director——

Senator BOSCHWITZ. Wait. As you are describing this particular agency, I noticed that Mr. Draper was engaged with his staff person.

Mr. Draper, Mr. Narayana is describing this agency where Mr. Lam is.

Mr. NARAYANA. Yes.

Senator BOSCHWITZ. Just describe it again once, if you would?

Mr. NARAYANA. We have three bankers on the board of that agency.

Senator BOSCHWITZ. How many people are on the board?

Mr. LAM. Seven.

Mr. NARAYANA. We worked with them, helping to structure that. There is Jack McHugh, former vice chairman of our corporation, who helped pull it together. So we are very proud of this thing. If every State does that, by golly we have to get them to participate in the Eximbank programs. So I cannot understand the reluctance of Eximbank. I really cannot.

Senator BOSCHWITZ. To utilize their services?

Mr. NARAYANA. Yes. I think they should be given delegated authority. They are more competent than most banks engaged in this business.

Senator BOSCHWITZ. I hope so. I threw that in, but it is an extraordinary agency. In defense of the Eximbank, it is like this whole program. When it just comes out of the blocks, you do not expect everybody to bow and say, "By George, this is a marvelous idea. We have to subscribe to it." If this agency is such an early effort nationally, perhaps it is understandable that Eximbank, which is normally accustomed to doing business with other banks, has some reluctance. It is very helpful, I might say, that you speak about the agency and the confidence that your bank has in the agency. But I am sure Mr. Draper is familiar with the Norwest banks of our area.

As a matter of fact, I find it very enlightening that you are so supportive, because one would almost think that the Norwest banks, and the First Bank System up in our neck of the woods, would be somewhat competitive with them. So it is interesting to find that they are not. I am very familiar with the banking situation in Marshall. I forget the name of the president of that one. It is probably a Norwest bank that you are speaking of there.

Mr. NARAYANA. John Lasher, yes.

Senator BOSCHWITZ. But before John, there was another John who was there for many years. When I started to bank with that bank, it was about $25 million in footings, and today——

Mr. NARAYANA. It is $120 million now.

Senator BOSCHWITZ. That is pretty good for a little town of 9,000 people.

Mr. NARAYANA. Mr. Chairman, being a former international banker, to me it is facinating to watch the banking system. The Independent Bankers of Minnesota as well as the Minnesota Bankers Association have recommended this agency. But more importantly, I do mean that: When you take the 60 banks, you have covered the State. Those are the banks that are in the commercial banking business, not 751 of them. So if we can focus on that 60 and really drive at those 60, I think you can get a lot of the job done. That is

a very effective banking system we have in Wisconsin, Minnesota, South Dakota, and North Dakota. I really believe that. I think it is a great program, and all I am saying is, we will fine tune it as we go along, but please, my recommendation is, we should use all the help we can get, and the State of Minnesota has been very forthcoming, and we ought to use them. Thank you very much. Those are my brief comments.

[The prepared statement of Mr. Narayana follows:]

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Senate Small Business Committee's Subcommittee on Export Promotion and Market Development

Appearing on May 10, 1984.

Mr. Chairman, thank you for giving Norwest Corporation an opportunity to appear before this committee to testify on the subject of small business export promotion and EX-IM bank's role in it. Norwest Corporation, headquartered in Minneapolis, is a $20 billion diversified financial services organization with 85 commercial banks and several specialized financial companies operating in 43 states and 5 countries.

My comments today are based on my personal involvement in financing exports for fourteen years for many small businesses in the Upper Midwest, as well as my involvement as a Manager of Financial Institutions Group for Norwest Corporation. In this capacity, I oversee our business with over 3,000 banks of all sizes.

Your committee, Mr. Chairman, and the EX-IM bank should be commended for developing programs to bring our small business into the business of exporting. I strongly believe that there are significant job creation opportunities if the small businessmen realize the potential of the enormous overseas markets.

It is important at the outset to recognize the concerns and needs of a potential exporter. They are:

1. Ability to obtain pre-export finance.
2. Insuring political, credit and other risks.
3. Help with documentation needed for exporting, as well as for insuring risks.
4. Financing the export itself at no interest rate risk.
5. Ability to obtain a claim settlement in case of default with no risk for the exporter.

Of the 15,000 or so banks in the United States, about 150 engage in international trade finance, and there is certain reluctance to deal with small exporters. In Minnesota and Wisconsin of over 1,400 banks, there are about ten banks that engage in this activity. Reasons are:

1. Risks related to the pre-export finance.
2. Low margins in the business. Example, a $50,000 export transaction will mean $500 in profitability to a bank (assuming the transaction is discounted at the EX-IM bank) before the administrative costs or allowance for risks. After netting out the expense for the number of hours required to put an export finance transaction together, a bank is likely to generate net profit of $200. If the quarterly repayments go past due, which they tend to most of the time, the collection effort and lost interest will eat up the $200.
3. Documentation and product dispute risk when dealing with an unsophisticated exporter.
4. Dealing with claim procedures is extremely cumbersome and time-consuming and expensive.

In spite of this, commercial banks in the U.S. are still playing a vital role in this business, since they are motivated by the collateral benefits of doing business with their clients. The problem is that not all small exporters do their primary banking with the banks engaged in international trade. Therefore, several small exporters' needs are not attended to and exporting does not take place.

(Minnesota being a multibank holding company state, and Norwest Corporation and First Bank System owning several banks in smaller communities and the Minneapolis affiliates of our corporation and of First Bank, do provide this source to our outstate banks.)

The keys, therefore, to reach the small exporters are to:

1. Have a program that addresses the concerns I stated.
2. Make the program accessible and <u>simple</u>.
3. Obtain the participation of commercial banks, at least the larger banks in the various communities - example, 60 banks in Minnesota that have over $50 million in assets. Provide larger incentives for the banks than are presently available.
4. Involve agencies of those states that attach priority to export promotion.

Comments on EX-IM Set-Aside Pilot Programs

Several risks identified earlier have been addressed by EX-IM bank in their small exporter program, and the pilot program is a very positive one to reach the market and educate the market. We are particularly pleased about the joint efforts of the Department of Commerce, S.B.A. and EX-IM bank; and, of course, the state governments and consortia.

I have worked with the EX-IM bank for fourteen years and find it to be a very professional organization which deserves a lot of credit for its consistent approach to export finance. However, it is a very lean organization facing mammoth tasks of coping with all the claims and reschedulings of external debt. As a result, application processing and claim processing do take time. This is still a major issue when it comes to timely assistance to exporters.

Set-Aside Program

This has not had much impact yet, since it takes time to spread the word about the program. In my estimation, it will be 12 to 18 months before we see usage of any magnitute.

At Norwest, one of the largest export financing institutions in the Midwest, we saw one application under this program which it took EX-IM bank seven weeks to process.

Other banks in Minnesota and Wisconsin report very limited usage or no usage of this program at this time.

Pilot Program

In my opinion, the Pilot Program is an excellent idea, and I strongly recommend that we invite the C.E.O.'s of the larger community banks to a meeting to promote the idea of getting into export finance business. There are unique banking networks that we must recognize. They are the ones that can reach the small exporter. In addition, I recommend the following actions:

1. Simplify the application processing procedure and cut the time short.
2. Recognizing the additional hand-holding burdens, give the banks availability to obtain greater spread on export loans - similar to S.B.A., even when the transactions are discounted.

3. Most importantly, allow the Export Finance Agencies of those states that are properly staffed and organized, to participate in the delegated authority. The closer the partnership of state and federal agencies, the better. We in Minnesota are very proud of the way our Minnesota Export Finance Agency is organized, and we believe it could set an example for other states.
4. When it comes to small business, EX-IM bank does not have the expertise that S.B.A. does. Several small financial institutions know how to deal with S.B.A. If a way can be found to meld these programs into S.B.A., we indeed can achieve the small exporter objectives.

Thank you.

Senator BOSCHWITZ. I might suggest, Mr. Narayana, when Mr. Lam—without putting words into your mouth or ideas that you necessarily feel you have to follow—but it might be very useful if you go along with Mr. Lam, or whoever the director is from your banking institution, when he gets together with Mr. Draper so that Mr. Draper has a sense that the banking community of Minnesota has confidence in this agency.

Mr. NARAYANA. Thank you.

Senator BOSCHWITZ. Mr. Fassino, you are next.

STATEMENT OF JAMES C. FASSINO, ASSISTANT VICE PRESIDENT, COMMERCIAL NATIONAL BANK OF PEORIA, PEORIA, IL, ACCOMPANIED BY ROBERT T. STEVENSON, JR., EXECUTIVE VICE PRESIDENT, COMMERCIAL NATIONAL BANK OF PEORIA

Mr. FASSINO. Mr. Chairman, thank you for giving us this opportunity to speak with you. Mr. Draper, your presence is appreciated as well. I am James C. Fassino, assistant vice president, Commercial National Bank of Peoria, located in Peoria, IL. Appearing with me today is our executive vice president, Robert T. Stevenson, Jr.

We are part of Midwest Financial Group, Inc., a new $2 billion bank holding company, the largest in downstate Illinois and sixth largest in the State, serving Rockford, Champaign, Decatur, Springfield, Kankakee, Bloomington, and Peoria.

I cite these communities not only by way of describing our location but, more importantly, because you undoubtedly recognize the names of these communities as among the hardest hit by recent economic adversity.

Senator BOSCHWITZ. As a matter of fact, I had stores in Kankakee and Urbana, so I am quite familiar with them.

Mr. FASSINO. In addition to the economic adversity, high unemployment and general pain has gripped the Midwest and older industrialized States. More often than not this hardship has been most keenly felt by the small business community, whose members include the families of our friends and our customers, as well as representing a community whose economic health is crucial to the economic well-being of us all. It is in this context that I share with you our deep appreciation for the recent export finance seminar

held in Peoria on April 26, 1984, by the Export-Import Bank of the United States.

The seminar detailed programs to assist small business available through the Export-Import Bank, FCIA, Commerce, and SBA, and covered international trade finance subjects thoroughly. Over 80 small business firms were represented, and we believe at least 300 others would benefit from an effective program which helps small business reach new export markets.

If the seminar had been held 5 years ago, very few small business firms would have attended. The reason is that until recently, most of these businesses were operating at capacity as suppliers to larger domestic exporting firms such as Caterpillar Tractor Co., John Deere, the auto industry, and many others. Thus, while Illinois has always been a leader in exporting, the role of small business in exporting has typically been an indirect one. Today, that situation is changing. For many small businesses, their future will be directly related to their ability to develop new markets overseas and to exploit new potentials in the international marketplace.

The export finance seminar contributed greatly to helping us understand what we need to do as a small businessman and as advocates for small business in preparing for these new opportunities. We learned that one of the most essential elements in helping small businessmen export their goods is presently missing. That element is a regional bank which can provide international services devoted to serving the small business community. The Export-Import Bank, FCIA, Commerce, and the SBA have very promising programs but our small business customers have historically been too small to access them, too small for help from large money center banks with these specialized international financing services.

Our presence here today is a gesture of our thanks to you in the Congress and to the Export-Import Bank for an outstanding seminar program and is also a measure of our commitment to work with you to help bring these needed international finance services to the small business community in downstate Illinois.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. We thank you, Mr. Fassino. We see that in a sense you are saying something along the lines that Mr. Narayan has said, that certain regionalization can occur in these efforts to multiply the availability of the Export-Import Bank's resources. I am pleased that you had a very good experience with the seminar that the Export-Import Bank did in April. As they say, if it plays in Peoria, Mr. Draper, you are on the right track.

I would ask Mr. Stevenson if he has any further comments.

Mr. STEVENSON. No, sir.

Senator BOSCHWITZ. Unless some other member of the panel has a comment that has gone unsaid, we thank you for coming and ask that panel No. 2 come forward: Mr. Carlos Gentilomo, the president of Contact Systems Corp.; and he will be accompanied by Ms. Jeanne Morin and Ivan Elmer, both of the chamber of commerce; and Mr. Jerry Maahs of Menomonee Falls, WI.

Mr. Gentilomo, we are going to move right along. I thank you for being patient with us this morning. In these hearings, everybody

shows up at 9:30 except the chairman sometimes, and then you later witnesses patiently sit through the earlier testimony.

STATEMENT OF CARLO B. GENTILOMO, PRESIDENT, CONTACT SYSTEMS CORP., NEW YORK, NY, ON BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES, ACCOMPANIED BY JEANNE L. MORIN, ASSOCIATE MANAGER-LEGISLATION, SMALL BUSINESS CENTER, U.S. CHAMBER OF COMMERCE; AND IVAN C. ELMER, DIRECTOR, OFFICE OF SMALL BUSINESS PROGRAMS, U.S. CHAMBER OF COMMERCE

Mr. GENTILOMO. Mr. Chairman, I am Carlo Gentilomo, president of Contact Systems Corp. With me is Jeanne Morin, who is a legislative counsel for the chamber's center for small business.

Senator BOSCHWITZ. Pardon me. Before you leave, Mr. Draper, we thank you. You are certainly very welcome to stay for the balance of the testimony.

Mr. DRAPER. Thank you very much, but I have an engagement. I appreciate the opportunity to be here.

Senator BOSCHWITZ. I appreciate your speaking at this time with Mr. Lam, and maybe Mr. Lam, if you have time to stay on, I will talk to you and Mr. Narayana.

At least I have some constituents here.

Pardon me, Mr. Gentilomo.

Mr. GENTILOMO. With me, Mr. Chairman, is Jeanne Morin, who is legislative counsel to the chamber's center for small business, and Ivan Elmer, to my right, who is director of the office of small business programs. We are very thankful that we have been given time to speak about the issues as we see them from the chamber of commerce and, more specifically, from the small business council side. So we are going to divide our presentation into three parts. One is general observations, then Jeanne Morin is going to get into the details of those pieces of legislation that may require amendments or actions and improvements, and then Mr. Elmer is going to explain why the chamber would serve as an ideal multiplier in the task of spreading the knowledge of the new possibilities offered by the new legislation that touches Eximbank.

My own company is an international business communications and strategic planning company, headquartered in New York. We have agents and liaisons worldwide, and we deal only in international matters. We assist companies who wish to develop or extend their presence in foreign markets by organizing their international management systems, their production systems also related to export, export sales operations, and partnerships in general.

The U.S. Chamber, as you well know, is a strong advocate of encouraging smaller businessmen to export. As a matter of fact, our new board chairman, Van Smith, has been a charter member and chairman of the small business council within the chamber.

Faced with a merchandise trade deficit of more than $100 billion, taking into consideration, for instance, what we read yesterday in The Wall Street Journal, quoting $25.78 billion for the first quarter of this year and possibly increasing, increased export activity on the part of small- and medium-sized firms is important in increasing America's competitiveness in the world market.

The suggestions for modifying Eximbank programs for easier small business access are going to be brought forth by Jeanne Morin. I would like possibly to add a few personal words that will explain why I am personally so concerned about what we are doing now.

First of all, it is my experience that Government bodies are not the best multipliers to spread this kind of private-sector activity. Private-sector activity, especially pertaining to small business, is a matter of trust, direct involvement, shaking hands rather than an academic presentation of facts. In this sense, I believe in any event that whatever is delegated by the Eximbank to local bodies—and Mr. Duc Lam and Mr. Narayana were very explicit in showing what they can do—can be done even more so by using the multiplier effect of the U.S. Chamber of Commerce, which has about 4,000 member associations or local chambers of commerce.

Within those local chambers of commerce, we can detect what we call the "locomotives" or the persons who have enough impetus and enough excitement to lead other businessmen maybe not even through the banker but directly as businessmen talking to other businessmen into "getting international" and working toward exports. I think only then we can proceed from there, bring the "prepared" persons to the bank that can then officiate on behalf of the Eximbank and get the whole thing going. If we do not give motivation, I think that no technique and no legislation, no tactic is going to be good enough to move those hundreds of thousands or at least dozens of thousands of American small- and medium-sized businesses who have a tremendous opportunity to enhance our presence in the rest of the world. Beyond legislation, our predomient problem is motivation.

I think I should limit my statement to this for the time being and let Jeanne Morin get into the details of the legislative side, unless you have specific questions.

Senator BOSCHWITZ. No, no. I agreed with Mr. Lam and Mr. Narayana that the idea of a bank with 340 or 350 employees undertaking a national program would be very difficult just from that standpoint, and I also agree with your general approach that probably small business—of which I was one—like to move. They do not like delays and the way the Government would present itself. So I agree with your approach.

Ms. Morin, you are going to outline what the Chamber of Commerce wants to do. Let's go on to you.

STATEMENT OF JEANNE L. MORIN, ASSOCIATE MANAGER-LEGISLATION, SMALL BUSINESS CENTER, U.S. CHAMBER OF COMMERCE

Ms. MORIN. Congress acknowledged the role that Eximbank has to play in assuring access to export financing for smaller companies——

Senator BOSCHWITZ. I am not sure I have your testimony here.

Mr. ELMER. Mr. Chairman, it is part of the same piece of testimony.

Senator BOSCHWITZ. From Mr. Gentilomo?

Ms. MORIN. I am starting on page 2, Mr. Chairman.

Congress acknowledged the key role Eximbank must play in assuring access to export financing for smaller companies when it mandated a 6-percent set-aside for Eximbank loans and guarantees. This is especially important because smaller export sales transactions are generally not attractive to traditional sources of export sales funding. Small exporting firms will be looking to regional banks, private-sector consortia, and State government agencies—all supported by Eximbank programs—as their primary source of export financing.

We believe that Eximbank's role in this process is to assure that its existing lending and guarantee programs are available to small exporters through these banks, consortia, and State agencies. For example, the commercial risk coverage provides a good example of how certain changes to existing programs could be of significant help to small exporters.

I would like to stress here that we are not talking about changes that require legislative action. We are talking about changes that we believe the Exim can implement on its own to fulfill the mandate that Congress gave it.

Currently, regional banks are allowed to charge a 1-percent interest rate margin for financing an export transaction through Eximbank's medium-term program. However, this 1 percent is not sufficient to compensate the bank for smaller dollar transactions. In their effort to make small export transactions more viable, most regional banks agree to share some commercial risk with Eximbank, in return for a portion of the commercial risk insurance fee charged to the foreign buyer. This up-front payment makes small transactions, which otherwise would be too costly, more attractive to regional banks. However, the commercial risk exposure is usually passed on to the small exporter as a condition for financing the sale.

This puts our smaller firms in a position of having to come up with the equity to cover the risk involved, and I think that most of the surveys and comments that we have heard from small companies would indicate that risk is a very important part of their reluctance to enter the export market. They are very concerned about accepting this risk, especially since they are not in a position to assess the exposure that they are going to incur. This is more appropriately the responsibility of the professionals at Eximbank or at regional banks, not at the small companies themselves.

We believe that Exim could ease this situation by standardizing its commercial risk coverage at 90 percent for single-sale transactions up to $10 million. This standardized risk would make it possible for individual States to step in with supplemental commercial risk insurance, such as what Mr. Lam suggested his agency was prepared to step in with, and we believe that this would encourage export sales in their areas.

For many States, the standardization of commercial risk coverage is the single most-important change that Eximbank could make. Without such a change, we are very concerned that individual States may try to set up their own export-import banks, with lending and guarantee authority, and that the resulting bureaucratic, diplomatic, and public policy problems would create some real problems in terms of international trade agreements and

create competition among States for small exporting companies' business. In the long run, this would make it more difficult, rather than easier, for small companies to export.

Eximbank performs a function that is legitimately a Federal Government responsibility and one that we believe should remain with the Federal Government. States have an important role as well in providing export development programs for small companies, but their role cannot be clearly defined until Eximbank provides a consistent framework around which individual States can design supplemental and complementary programs.

Senator BOSCHWITZ. Before you go on to the second element, you say this is something that can be done administratively with Eximbank.

Ms. MORIN. We believe that is true.

Senator BOSCHWITZ. Has the chamber of commerce approached Eximbank about this?

Ms. MORIN. Yes, we have. We have approached them on several different occasions. I think that Mr. Draper's response to Mr. Lam, when he said that the Minnesota State authority——

Senator BOSCHWITZ. They like to deal with banks.

Ms. MORIN. Yes, but they want to deal with banks on a very limited basis. Their discretionary lending programs currently, I believe, only extend up to $300,000, and we are asking for $5 million in discretionary lending authority.

Senator BOSCHWITZ. That may take legislation.

As you converse with them, and if you need our help, perhaps you should let us know.

Ms. MORIN. We will do that.

The second element in stimulating smaller companies' exports is extending discretionary lending authority to regional banks, consortia and, where appropriate, State government agencies. For example, regional banks currently have limited discretionary lending authority. Expanding this authority commensurate with the bank's claims experience will reduce paperwork, speed up loan processing, and make such lending more attractive to the regional banks, especially those that already have established a working relationship with a small company interested in exporting.

Banks possessing the most favorable credit ratings should be allowed to self-approve credit on single-sale transactions up to $5 million. Banks supporting a lesser credit rating should be allowed to self-approve credit on single-sale transactions of lesser amounts. By establishing a regular reporting mechanism for all newly approved loans, Eximbank can assure constant knowledge of the amount and type of support committed. Should it appear at any time that Eximbank is in danger of exceeding its lending authority, special procedures could be instituted until the situation is alleviated.

Senator BOSCHWITZ. Well, it looks like you may have to have some more authority. But keep going.

Ms. MORIN. If Eximbank does not increase its discretionary lending authority, increased activity by regional banks and other institutions will create an administrative nightmare and a paperwork burden Eximbank itself acknowledges it cannot handle. This is an essential element in any plan to increase small business export sales. We do not believe that regional banks will reduce the quality

of their loans if the foregoing recommendations are adopted, since Eximbank maintains a performance listing on all banks using its programs and will take remedial action against any bank abusing its authority.

Our final policy concern has to do with the direct lending program. Standardizing commercial risk coverage and expanding discretionary lending authority should open the way for regional banks and other institutions to support export sales effectively for small- and medium-sized U.S. companies. However, these actions will not solve small business' export financing problems in countries such as Mexico and Brazil, where private institutions will not participate due to country conditions. Yet, Eximbank has continued to provide credit and lending programs for transactions up to $500,000. For transactions exceeding $500,000, Eximbank would have to expand its in-house direct lending capability.

In closing, I would just say that I think the point we would like to make most clear, in terms of what we are asking Eximbank to do, is that we are not asking them to design new programs for small companies. We are simply asking them to make their existing loan and guarantee programs accessible to small companies, and we hope that our recommendations speak to those concerns.

Senator BOSCHWITZ. Thank you very much.

Mr. Elmer, do we know one another?

Mr. ELMER. Yes, we have met.

Senator BOSCHWITZ. You look familiar.

STATEMENT OF IVAN C. ELMER, DIRECTOR, OFFICE OF SMALL BUSINESS PROGRAMS, U.S. CHAMBER OF COMMERCE

Mr. ELMER. Thank you, Mr. Chairman. I will begin on page 6 to outline the role that we play as a broker of ideas, especially among and between the 4,000 organizations that are our members that Mr. Gentilomo referred to.

We have had an opportunity, and have been pleased to do so, of working with the committees since 1981, in both the Senate and the House. That triggered our international role, as far as that broker function. In 1982, shortly after we first began talking with staffs and members here, we formed a task force on export expansion. From that, we began contacts with 60 local chambers known to operate effective international departments. We set out with them to identify the primary obstacles to exporting for small firms.

Very quickly, export financing was identified as an obstacle. Another obstacle was the basic lack of awareness of the benefits of international trade.

Senator BOSCHWITZ. Pardon me for interrupting you, but as you heard during the course of this hearing, the Eximbank is going from Peoria right up to Minnesota on June 18, and it could be a help, I think, if you would circularize among your constituents in Minnesota—also in western Wisconsin—so that we can maximize the attendance at that hearing.

Mr. ELMER. Mr. Chairman, we have done so. I am gratified to say, we had heard from the Peoria chamber in advance of the hearing. This is one of our strategies in working with the bank, to try to implement what we feel is now the secret of their attempt to

bring more small companies. That is to decentralize and more to privatize their efforts. I will have a word or two more on that in just a moment.

We found, in going to chambers—not only the first 60 but others—that they felt they lacked information and expertise in international trade, just as small business people say they lack information and expertise. Therefore, if we were going to be helpful in this process, we needed to support the local chambers more. We have taken several steps to do so.

First, with several Federal agencies over time, we have sponsored national teleconferences on international trade that have been very widely attended and have had a great deal of participation among small companies. We have surveyed the staffs far beyond that original 60 group to find out what they do in their programs of international market development, what problems they encounter, what information or guidance that we could give them or that they might get elsewhere that would help either to start or expand an export development program.

The survey results have provided a foundation for a new data base of several hundred chambers of commerce and associations. Now we know essentially what they are interested in, and we have the names and addresses of their key staff and business leaders. We are now developing a series of case studies of successful efforts that we can make available to chambers to guide them in their attempts to bring more small companies into international trade.

Last summer, we began our direct contacts with the Eximbank, even before the new law was signed, to assist in its series of small business seminars with leaders in the 30 or so major cities across the country. We offered to help identify top leadership in the banking and business communities to participate in the seminars and then to carry on the local information effort under sponsorship of the local chamber. We have contacted all the known host-city organizations. We start with organizations, and with the leadership of the business community, to gain an understanding and commitment on their part to follow through, which we think is very important. In fact, that is one of the fundamental keys that we believe is necessary to make the Eximbank program work.

The first of those keys is that the delivery system must rely heavily on private action. A second is that neither the Eximbank nor any other Federal agency can sell exporting to small business as well as private salesmen and private incentives can do so. The third is that we must foster local public-private coalitions to carry this message to the ultimate consumer. The bank cannot do that alone, and no series of 30 or 40 seminars can carry that message alone. It is the only way that we know that we might do as you said this morning at the outset to involve local banks and institutions effectively in the export finance function.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. We have been talking to one another because we agree. We invite you to keep us advised, particularly the staff and they will keep us, in turn, advised of what you are up to. I notice you talk about the 30 major cities across the country and so forth. I hope, too, that you will make an effort to get to the chambers of commerce of the smaller towns and cities. Perhaps

there is not quite as much per capita potential there—you never can tell, really—and there is certainly greater potential in one large organization than in many small, but at least I have observed that chambers of commerce are far more active in a far more meaningful part of the community life in smaller cities and towns than they are in the larger cities. Minnesota is quite active in general, but when I used to live out East here, I did not have this great a sense of the chambers of commerce as I do in the Midwest.

I do not know how one does it, whether or not even in these small towns that somebody can be appointed as the international trade person with whom you can correspond on an ongoing basis. I am sure that you will stir up a great deal of interest. We certainly are on the right track.

This brings us to you, Mr. Maahs. I might say that we do not always have Wisconsin representatives last. We now turn to you. I have your testimony before me. You are the president of Alto-Shaam.

STATEMENT OF JERRY D. MAAHS, PRESIDENT, ALTO-SHAAM, INC., MENOMONEE FALLS, WI

Mr. MAAHS. We manufacture food service equipment in Wisconsin, and currently we are exporting into 26 countries around the world.

There are a few points that I would like to bring up in terms of my testimony that relate to general problems with small business-people. Then I have some specific comments to make with regard to some of the testimony that has been provided today.

I would also like to say that I am the chairman of the District Export Council in Wisconsin and have been for about 5 years. So, with that experience, I feel that I have also dealt with a number of the other small business people in the State of Wisconsin. I hope I can reflect some of that as well. I will read from the prepared text and then get into some specific comments.

Senator BOSCHWITZ. Menomonee Falls is toward Milwaukee?

Mr. MAAHS. Menomonee Falls is actually a suburb on the northwest side of Milwaukee. It is basically in the Greater Milwaukee area.

Senator BOSCHWITZ. Somewhere out by Eau Clair?

Mr. MAAHS. No. It is just really the northwest suburb of Milwaukee.

Senator BOSCHWITZ. There is a Menomonee somewhere——

Mr. MAAHS. There is a Menomonee in Wisconsin and Michigan. That is right on the border of upper Michigan and Wisconsin. That is a different town. It is a good old Indian name. A lot of people have a lot of trouble with it.

I think the first thing I would like to suggest is that we talk about what kind of small business we are talking about. I would like to reflect on businesses that are doing under $25 million in sales. I feel that my company represents an excellent example of small business, and I will use it as a case study.

Alto-Shaam experienced its first exposure in the export market in 1974. There were a few sporadic international sales prior to this, but it was our participation in a U.S. Department of Commerce

sponsored trade show in Germany that proved to be the catalyst we needed in accelerating our interest in the export market.

Our international business has developed to where it totals 25 percent of our sales volume. Currently, we are approaching $10 million in sales, with exports comprising about $2.5 million of that total. Just to go back a little bit, when we started in 1974, we were a company of about $1.5 million in sales. So it gives you some idea of the growth.

In terms of employment, exporting supports 25 people in our total work force of 110. Our business has been growing at an excellent rate, despite a very soft economy. I would like to digress a little bit. My feeling is that since we were aggressive and pretty well involved in the international market, we felt that through the last 2 or 3 years, when the domestic economy was soft and we experienced some of that same softness, we were fortunate in that we were going through some of the greatest growth in our international business. That still kept us on an increasing level of sales.

Sales this fiscal year will increase by 20 percent. A meeting with our bankers determined our working capital requirements over the next several years. Our sales forecasts are for continued strong growth, especially in the international area. We anticipate a sales increase to $15 million over the next 3-year period, with our export sales demonstrating the strongest growth pattern in the area of 30 to 35 percent of sales. This should result in the addition of approximately 75 employees, 50 of whom will concentrate or be involved to produce and support our export program.

This is not an easy achievement, however. Since every story has both positive and negative facets, I would like to reflect on some of the negative portion of our problem. Many companies, numbering in the thousands, avoid committing themselves to international marketing. There is a prevailing lack of incentive toward spending the extra money it takes for sales costs in these markets. The discussion with our bankers determined a shortfall of capital in the range of $150,000 per $1 million in additional sales. So that means for every million in additional sales we attain, we wind up with a shortfall of working capital.

As you can see, this places considerable financial burden and pressure on the small businessman. In order to encourage this marketing expense, we need some attractive incentives. One idea involves double deductions for international marketing costs and also some type of capital formation plans that might allow us to retain a little bit more of our profits to help in this marketing effort.

We believe the costs of these incentives would be returned many times to the Government by the increased employment and the profitability of the company. I think we provide a reflection of that with our growing business.

You must understand also that today we are concerned with the developing problem that is coming up with the DISC corporation. We understand and know that this is illegal, as I understand it, with the GATT people. From everything that I have read that relates to the substitute program of the FSC, it does not appear that we are going to get the type of help that we need. If I understand what I have read, the incentive of this export corporation is going to be diminished considerably. I do not feel that this is the right

way to move when we are dealing with the kind of problems we are dealing with and trying to encourage small business to get more active in the export area.

I understand and have to be sympathetic to the problems that we face with our budget deficits and so on, but I think in the long term something has to be done to deal with these problems.

Senator BOSCHWITZ. I agree. I am not familiar enough with this, and I will make myself familiar with it. I would not hold your breath about getting double deductions.

Mr. MAAHS. I understand. I know that is is probably the worst time to look for this, but hopefully sometime in the near future we might be able to provide some help.

Senator BOSCHWITZ. I am not sure that there is such a concept now in the Tax Code, and I think there would be considerable reluctance to introduce it. Everybody would come in looking for double deductions.

Mr. MAAHS. It is just an idea. I think we are looking for something. As I understand it, I think that in Australia they have some type of similar vehicle for helping their export people.

I will skip the portion here that gets into a lot of figures that we are all aware of. But just to skip down to the next page, without help it is not economically feasible for banks to finance small business in the area of exporting. Currently, there are no provisions—and this deals with the Eximbank. As I understand it—I had a discussion with our banker, Mike Stracker, who is the senior vice president of the Marine Bank in Wisconsin, which is the third largest bank in the State of Wisconsin. He indicated—and I would also say that in 10 years of doing business with these people, there was never any mention or suggestion to use the Eximbank financing program. I asked him why this suggestion never came up from our bank. His comment was that the possibility of some type of product dispute or something that might take place in the foreign country, there was no provision with the Eximbank, and as a result, if there was a shipment that was made to a foreign customer, and there was some reason that the foreign customer refused to pay for the equipment, the bank would wind up being in the middle, that there was no insurance or anything to cover this. If it turned out that the small businessman who had committed his capital resources and so on and now was not in a position to resolve the problem, the bank wound up with the burden of this situation, without getting paid. That was a big inhibiting factor as to why the bank did not promote that type of business.

The other part of the discussion was that if the amounts were small—and I think we would have to reflect our own experience. Most of our business and the amounts that we are dealing with dealt in the area of from about $10,000, let's say, to $100,000, in terms of the type of business that we would do on a repeat basis. Again, the incentive of the banker was not to set these up with some type of an Exim program, because of the fact that the cost of dealing with these types of loans was very expensive, in proportion to the amounts that we were dealing with.

Senator BOSCHWITZ. Mr. Narayana also referred to that.

Mr. MAAHS. That is right.

We did become involved with the FCIA programs, although this also presented some problems to us. By the way, generally I think the program worked reasonably well, although the problem that we had was that in these 26 countries that I mentioned, our program is to establish a distributor in the country and to develop an ongoing sales relationship. We found that many of these people that we were dealing with were smaller types of businesses. Just to give you an idea, they would range roughly from about a half million in U.S. dollars a year in sales to, let's say, $10 million. Most of them were privately owned. These people, for their own reasons, did not always provide the necessary banking information to our banks, so there were times more than once that we found it very difficult to get the credit approvals on these customers. So we pretty much had to take our own risks, based on our own contacts with these people and a certain amount of dealing with them, and establish our own lines of credit and not be able to use the FCIA program.

I think this is something else that I did not hear mentioned here today, but I think that somehow this Exim program has to deal with, let's say—you know, when we get back to what we are talking about in terms of small business is some method of financing these smaller transactions. I know I heard a figure mentioned earlier that dealt with something like $300,000. I think realistically, if we are going to talk about what I consider small business, $300,000 generally, I would say, is more than the type of transactions that the average small businessman is going to deal with.

Senator BOSCHWITZ. I think it is cumulative per customer, is it not? While the transaction may be within bounds, even in your instance where you do a total of $2.5 million a year, the cumulative figure of it may be somewhat limiting.

Mr. MAAHS. Then I would get back to what the banker suggested, and that was that unless they knew that they had a very good customer relationship that would develop, they were discouraged from getting involved with the smaller transactions. I think these basically are some of the problems, as I see it.

That is about all that I have.

Senator BOSCHWITZ. Thank you, Mr. Maahs. It is interesting to hear of your experience and your background. I operate a company called Drexel, which is also in Milwaukee, in case you have any need for carpeting and things like that. I am very familiar with that marketplace. You know, your business sounds quite similar to Senator Lugar's family business. I do not know what the name of it is. They are down in Indianapolis, also a small company that manufactures and does a great deal of exporting of food machinery. You may be interested in asking his office and perhaps making common cause. His brother runs that business. He lives up near me, so I ride back and forth with him.

I thank you, Mr. Maahs, Mr. Elmer, Mr. Gentilomo, and Ms. Morin. Unless there are some further comments, we stand adjourned.

[Whereupon, at 12:10 p.m., the committee recessed, to reconvene at the call of the Chair.]

[The prepared statement of Mr. Maahs follows:]

37-255 O—84——14

STATEMENT OF JERRY D. MAAHS, PRESIDENT, ALTO-SHAAM, INC., MENOMONEE FALLS, WI

Mr. Chairman: I would like to discuss the problems facing small business today. Small in reference to those organizations which maintain sales volumes under $25,000,000. I feel my company represents an excellent example of small business and I will use it as a case study.

Alto-Shaam experienced its first exposure to the export market in 1974. There were a few, sporadic international sales prior to this but it was our participation in a 1974 German trade show which proved to be the catalyst we needed in accelerating our interest in the export market. Our international business has now developed to where it totals 25% of our sales volume. Currently, we are approaching $10,000,000 in sales with exports comprising about $2,500,000 of that total.

In terms of employment, exporting supports 25 people in our total work force of 110. Our business has been growing at an excellent rate despite a very soft economy. Sales this fiscal year will increase by 20%. A meeting with our bankers determined our working capital requirements over the next several years. Our sales forecasts are for continued strong growth, especially in the international area. We anticipate a sales increase to $15,000,000 over the next three year period with our export sales demonstrating the strongest growth pattern; in the area of 30% to 35% of sales. This should result in the addition of 75 employees, 50 of which concentrating in the export division. This was not an easy achievement, however, since every story has both positive and negative facets. I would like to reflect on the negativism toward exporting exhibited by many small firms.

Many companies, numbering in the thousands, avoid committing themselves to international marketing. There is a prevailing lack of incentive toward spending the extra money it takes for sales costs in these markets. The discussion with our bankers determined a short fall of capital in the range of $150,000 per $1,000,000 in additional sales, allowing for the plowback or earnings. As you can see, this places considerable financial burden and pressure on the small business man. In order to encourage this marketing expense, we need some attractive incentives. One idea involves double deductions for international marketing costs and also capital formation plans which would allow added retention of profits for expansion. The costs of these incentives would be returned many times to the government by the increased employment and profitability of the company.

You must understand that any incentives provided by a DISC corporation does not help the small business get started internationally. Our DISC, formed in 1981, only helped us after we had attained some success with our marketing program. Now, we are forced to deal with the problems caused by discontinuing the DISC. Replacing the DISC with the FSC is a move which will further decrease incentives instead of placing emphasis on initial capital requirements.

Small business is the backbone of the U.S. economic system. 66% of all new jobs in the United States are generated by small business. SBA indicates over 96% of the nation's businesses are small firms—over 10 million in all, accounting for 43% of the gross national product. Moreover, small business is a growing sector of the economy. It makes good sense to tap this U.S. resource by providing assistance in the export area.

The United States exports only 7.5% of its G.N.P. Only 8% of all U.S. manufacturers have any export business at all and half of all American exports come from just 100 companies. There are a multitude of products produced by small business for which there is a market overseas. Promoting these markets would be a boon to the economy by improving the U.S. balance of trade. Foreign sales can be very lucrative and markets for American products exist in unlikely places. To encourage small businesses to export their products we must increase the availability of commercial bank financing to small exporters and reduce the risk factor.

Recent economic reports indicated an increase in imports of 12% where, in the same period, exports had only increased 4.5%. I can say with relative certainty that small business was responsible for only a fraction of this minor increase in exports.

Small business continues to face a multitude of problems marketing goods on an international scale. The basic marketing techniques are available through an existing government agency. The U.S. Department of Commerce has proven to be an invaluable tool to small business. Although they can offer information on the "how-to", they cannot help small business overcome the biggest barrier to exporting--the financial obstacle.

Without help, it is not economically feasible for banks to finance small business in the area of exporting. Currently, there are no provisions for product warranty coverage. The bank would hold the full financial burden if, for any reason, the buyer

does not accept the merchandise. There are some provisions for product warranty coverage for companies totally new to exporting but nothing for companies with limited exporting sales. These companies do not qualify for this warranty coverage. The position of the banking community is clear. In addition to the financial risk, the cost of doing business must also be considered. At this time, it is just as cost efficient for a bank to handle a $1,000,000 sale as a $10,000 sale. Combine this fact with the fact that there may be no repeat business following the initial small business export transaction, the bank has no incentive to handle these small business ventures.

The Small Business Division of the EXIM Bank provides help to small business by way of competitive financing, risk protection and working capital. It is imperative, however, that their programs be expanded to make them more accessible to small business.

I believe once small businesses begin thinking internationally, it will go a long way in aiding the U.S. balance of payments and relieve bottled competitiveness for domestic sales. This would serve to broaden everyone's marketplace.

I realize that considerable progress has been made over the past few years but with your continued support, more must be focused on special areas. There is no need to further erode the tax base and create additional budget deficits. I would encourage you and your associates to work in this area for small business, as I believe it affords greater opportunity not only for business but for the general health of the economy, the government and the country.

APPENDIX

STATE OF MICHIGAN

JAMES J. BLANCHARD, Governor

DEPARTMENT OF COMMERCE

P.O. BOX 30004, LAW BUILDING, LANSING, MICHIGAN 48909

RALPH J. GERSON, Director

May 14, 1984

The Honorable Carl Levin
The United States Senate
459 Russell Office Building
Washington D.C. 20510

Dear Senator Levin:

I understand that the Senate Subcommitee on Small Business has recently held hearings on the U.S. Export- Import Bank's Small Business Pilot Program and the bank's efforts to meet the small business setaside established by Congress in 1983. I would like to share my perception of these issues with the Subcommittee. Please find enclosed written testimony for the record.

Sincerely,

Andrew Midler, Analyst
Michigan Department of Commerce

Mr. Chairman, members of the Subcommittee, my name is Andrew R. Midler and I welcome the opportunity to present this testimony for the record. During the past year I have served in the Office of Strategy and Forecasting of the Michigan Department of Commerce. My principal duties have been in the area of international economic development. A large part of this time has been devoted to the development and implementation of a Michigan Export Finance Program. The Blanchard Administration is keenly aware of the importance of international trade for the future prosperity of Michigan and the United States. Particular attention has been paid to the needs of small and medium size Michigan firms. During the past year we have conducted extensive informal and formal surveys of small Michigan exporters and firms interested in exporting. Without launching into a discussion of specific needs, the message we received is clear and is similar to the conclusion Congress reached in 1983. Small businesses in Michigan and throughout the United States require additional trade financing to increase their competitiveness and share of the world market. The private sector has traditionally avoided serving this market because of its low profitability and high fixed cost. It is as clear to us in Michigan as it has been to the members of this Committee that the public sector, through Eximbank and the state programs, can and must assume a role in this vital task. Michigan state government, in an innovative plan utilizing the strengths of the public and the private sector, is preparing to assist small and medium Michigan firms meet the challenge. Furthermore, as part of my

duties, I have served as a representative on a six state (Michigan, Minnesota, Illinois, Ohio, Connecticut, and Wisconsin) task force organized by the Eximbank and NASDA (National Association of State Development Agencies) for the purpose of examining Eximbank small business programs and developing suggestions for change. Over the past year I have worked with Eximbank programs and am familiar with both their intent and performance. Thus, I believe that I am well qualified to comment on the trade financing needs of small business and Eximbank's efforts to fill these needs.

Since the passage of the Eximbank Act Amendments of November 1983, there has been a new emphasis at Eximbank on small business exports and state export finance programs. The bank understands that with a staff of only 344 professionals it can not effectively reach out and singlehandedly fulfill the needs of small business or comply with the small business setaside mandated by Congress. From a past position of publically chastizing the idea and concept of state export finance agencies , Chairman Draper and the Eximbank are now anxious to enter into a partnership with the states towards the fulfillment of this Congressional mandate. To this end a four state pilot program was announced last week to representatives of the states (Michigan, Minnesota, Illinois, and Wisconsin). The bank has begun a marketing campaign and hired a public relations firm. Special training in the bank's programs is being

provided to states and other federal agency personnel. There is much positive in these actions. However, I remain concerned whether Eximbank recognizes the ability, commitment, and importance of the states in becoming a full partner with Eximbank in the development of an agressive and successful small business export finance program.

There are two components to Eximbank's new small business program- a Working Capital Guarantee Program and an FCIA Umbrella Policy. Michigan sees structural issues with both of these programs. In the Working Capital Guarantee Program, Eximbank will grant delegated authority for pre-export working capital guarantees for up to $300,000 per loan to any and all commerecial banks in the 4 state pilot area. While this measure is designed to increase the useage of the Eximbank Small Business Working Capital Program, this approach may prove ineffective. I fear that Eximbank will encounter logistical problems in marketing this program in the four state region. To effectively market the program and obtain a commitment from the commercial banks, the banks must be approached individually. Bank personnel must also be trained. In Michigan there are over 570 commercial banks and there are over 750 in Minnesota. Similiar numbers exist in Illinois and Wisconsin. I am concerned whether Eximbank's limited staff will be able to successfully implement this program in the short period of time available. Impersonal mailings and a mass marketing approach

can not possibly garner the commitment and general level of understanding necessary to insure success. While not wishing to assume the role of Cassandra, I must believe that this program, unfortunately, will fall short of its goal. An approach dependent upon the commercial sector will not succeed for the same reason it has not succeeded in the past. These loans are too often unproftiable for the large banks to make. Costs are too high and potential profits are too low. Reaching out to small banks will also be an ineffective measure but for a different reason. While the small commercial banks do not possess the high cost burden of the large banks they also tend not to have the clientele to support an export program. Thus, even if the Eximbank could effectively market the program to all the various small commercial banks in the pilot area, I question the extent of the commitment which could be expected from a bank that would do, at most, one or two deals per year. These small institution can not be expected to commit adequate staff time for training or marketing this program.

There is a solution to this problem, a solution which can and should be applied to the topic of small business export finance in general. I believe an effective, aggressive small business program can be devloped. This can only occur if Eximbank delegates authority over their programs to the state export finance agencies. The state agencies are not governed by a need to make a profit. By working within established networks of state/local economic development programs, small firms and deals could be channeled to the state agency. The state agency would not replace or compete with the private sector but rather enhance and fill a resource gap for the unprofitable deals commercial banks have traditionally avoided.

The FCIA Umbrella Policy is an improvement upon the existing small business and new-to-export short term export credit insurance policy but also contains structural imperfections. In the past the small business policy set a $500 minimum premium rising to $1650 in the third year. Insurance industry executives as well as small business exporters have told us that this is burdensome and a price difficult to justify for the small firm exporting $10,000 or even $50,000 per year in products. The umbrella policy enables an institution, such as a state export finance agency, to purchase a policy and then sell small pieces to individual exporters. This is an excellent innovation. However, once again I am not confident that the administration of the program is in the most effective location. Each exporter and each deal, on a deal-by-deal basis, must be examined by the FCIA branch office in Chicago. This is a time consuming process of at least 10 working days but, at times, up to a full month in duration. Obviously, export sales can be lost with a delay of this length. Furthermore, pre and post export credit must work in tandem. Arranging pre-export credit is useless until the post export credit is established. It serves no purpose to provide working capital to maufacture goods for export without the credit to finance the sale.

The solution to this problem again is to grant delegated authority over the policy to the state export agency. The state agency could act quickly to respond to the needs of its small business exporters. The state agency knows its market and its exporting community far better than the regional FCIA Office. The state agency could evaluate the pre export credit at the same time that the post export credit is evaluated. It is an efficient solution to this structural problem.

Section 618,VII of the 1983 amendments to the Eximbank Act specifically states that lines of credit to state export agencies should be part of the small bank set aside. It is my belief that this must be an important part of any attempt to help small businesses compete in the export market. The state agencies are in the unique position to assist small and new-to-export firms in the international marketplace without regard for profit. Time and time again, in state after state we have witnessed support for this activity by state legislatures. The issue of export finance has been considered in over one-half the states. Many states have passed legislation, others have granted appropriations to their respective economic development agencies. Eximbank should not discourage this process but rather work to foster it. We are all striving for the same goal-THE PROMOTION AND DEVELOPMENT OF EXPORTS FROM AMERICAN FIRMS TO HELP BUILD A HEALTHY AND PROSPEROUS ECONOMY. Eximbank should grant delegated authority to commit their program funds to state export finance agencies much as they do with commercial banks. By making this proposal, I am not suggesting that Eximbank should do anything as imprudent as grant this power to unknown and unqualified entities. On the contrary, this must be a careful and prudent exercise. Along these very lines, the Eximbank task force of representatives from the 6 states suggested just such a criteria for the granting of delegated authority. In a March 4, 1984 letter to Chairman Draper, the task force suggested the following criteria for the granting of delegated authority:

1). State agency personnel adequately trained;

2). Decisionmaker with 3 to 5 years international credit analysis;

3). Track record established.

Delegated authority has obviously not been made a part of the Pilot Program. Nor has the task force proposal been formally addressed. It is my belief that this Subcommittee can do the greatest good and advance the cause of small business to the greatest extent by pursuing this topic directly.

In closing Mr. Chairman, I am encouraged by the gradual shift in Eximbank policies toward small business. Yet, it is a hollow accomplishment without delegated authority.

Thank you Mr. Chairman for giving me the opportunity to address the issue of Eximbank's small business programs and to add my testimony to the record.

PINELAND
INTERNATIONAL CORP.
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Decatur, Georgia 30031
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May 31, 1984

Honorable Rudy Boschwitz
Chairman
Subcommittee on Export Promotion
and Market Development, Room 428A
Russell Senate Office Building
Washington, D.C. 20510
Attn: Dorothy Olsen

Dear Senator Boschwitz:

I have been informed of recent hearings conducted by your committee to examine the Export Import Bank Small Business Set-Aside Program.

In this regard, I would like to submit this letter as written testimony on behalf of the World Technology Center (WTC), and request that it be made a part of the official record.

During the past fourteen years, I have been actively involved in the planning, development and expansion of small and minority business in the public and private sectors. My interest and involvement in these particular sectors have centered around market analysis and promotion, economic development, financial planning, business plans preparation, management analysis and feasibility studies in Washington, D.C., Chicago, IL and Atlanta, GA.

For the past three years, I have operated Pineland International Corp, a Georgia based trading company engaged in the sale of agricultural products, equipment and machinery for export. Other product lines include chemicals, fertilizers and seeds, however, our primary orientation is the design, manufacture, installation and maintenance of irrigation systems.

My interest in the hearings is a result of my participation in international business and as a member of the WTC Board fo Trustees and the Industry Sector Advisory Committee on Small and Minority Business for Trade Policy Matters in the Department of Commerce.

I believe the WTC and its' ancillary functions, address the needs of small and minority firms interested in international trade or those seeking to expand their international market share. To my knowledge,

it is the only appropriately structured organization best able to identify, recruit, provide management and technical assistance in the development of qualified firms to take advantage of export opportunities. In my judgement, the WTC goals and objectives are consistent with those of the Industry Sector Advisory Committee. Additionally, as an active Board of Trustee member, I intend to participate on an advisory committee to establish a network of small and minority firms to avail themselves of the Centers programs and services.

In closing, I have researched and examined the Export Import Banks loan record to small and minority business and find the record less than overwhelming. The legislation establishing a set-aside program is the kind of encouragement necessary to insure that all segments of the business community share in the financial and market opportunities available in a free society, consistent with the free enterprise system.

I therefore commend the committee for conducting the hearings and am confident that appropriate follow-up and oversight will be conducted to insure compliance with the legislative intent and spirit of the law.

Sincerely,

Hugh Wright
President

HW: rw

CC: Gordon Harrison